

On The Longest Chain Rule and Programmed Self-Destruction of Crypto Currencies

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Abstract. In this paper we revisit some major orthodoxies which lie at the heart of the bitcoin crypto currency and its numerous clones. In particular we look at *The Longest Chain Rule*, the monetary supply policies and the exact mechanisms which implement them. We claim that these built-in properties are not as brilliant as they are sometimes claimed. A closer examination reveals that they are closer to being... engineering mistakes which other crypto currencies have copied rather blindly. More precisely we show that the capacity of current crypto currencies to resist double spending attacks is poor and most current crypto currencies are highly vulnerable. Satoshi did not implement a timestamp for bitcoin transactions and the bitcoin software does not attempt to monitor double spending events. As a result major attacks involving hundreds of millions of dollars can occur and would not even be recorded, cf. [32]. Hundreds of millions have been invested to pay for ASIC hashing infrastructure yet insufficient attention was paid to ensure network neutrality and that the protection layer it promises is effective and cannot be abused. In this paper we develop a theory of *Programmed Self-Destruction* of crypto currencies. We observe that most crypto currencies have mandated abrupt and sudden transitions. These affect their hash rate and therefore their protection against double spending attacks which we do not limit the to the notion of 51% attacks which is highly misleading. Moreover we show that smaller bitcoin competitors are substantially more vulnerable. In addition to lower hash rates, many bitcoin competitors mandate incredibly important adjustments in miner reward. We exhibit examples of ‘alt-coins’ which validate our theory and for which the process of programmed decline and rapid self-destruction has clearly already started.

Note: The author’s blog is blog.bettercrypto.com.

Keywords: electronic payment, crypto currencies, bitcoin, alt-coins, Litecoin, Dogecoin, Unobtanium, double-spending, monetary policy, mining profitability

1 Bitcoin and Bitcoin Clones

Bitcoin is a collaborative virtual currency and payment system. It was launched in 2009 [56] based on earlier crypto currency ideas [4, 27]. Bitcoin implements a certain type of peer-to-peer financial cooperative without trusted entities such as traditional financial institutions. Initially bitcoin was a sort of social experiment, however bitcoins have been traded for real money for several years now and their price have known a spectacular growth [26].

Bitcoin challenges our traditional ideas about money and payment. Ever since Bitcoin was launched [56, 57] in 2009 it has been clear that it is an experimental rather than mature electronic currency ecosystem . A paper at the Financial Cryptography 2012 conference explains that Bitcoin is a system which *uses no fancy cryptography, and is by no means perfect* [7]. In one sense it is still a play currency in early stages of development. The situation is even worse for bitcoin competitors. Their creators and promoters typically just copy features of bitcoin without any deeper insight into their consequences.

In this paper we are going to see that the exact same rules which might after all work relatively well (at least for some time) for a large dominating crypto currency such as bitcoin, are rather disastrous for smaller crypto currencies.

On the picture below we explain the organization of this paper.

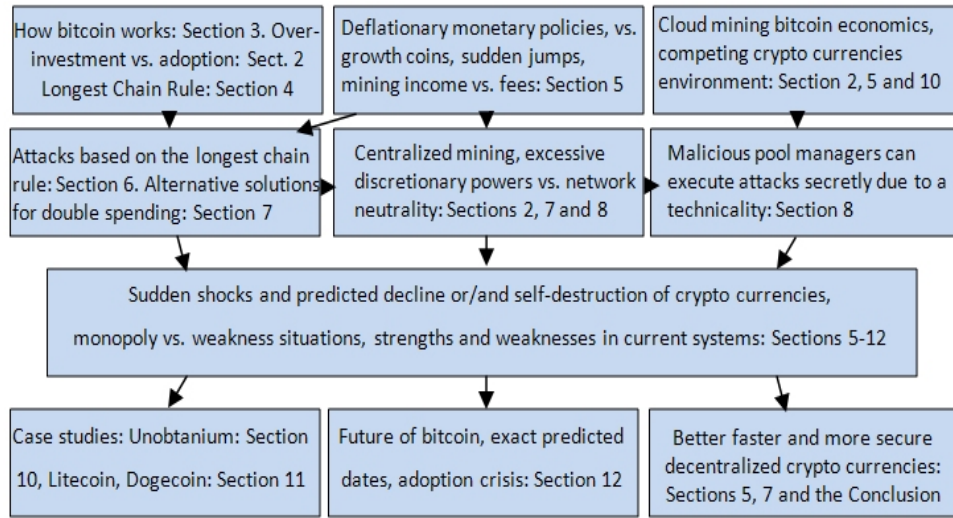


Fig. 1. Our roadmap: risks and dangers of bitcoin and other digital currencies.

2 Bitcoin As A Distributed Business: Its Key Infrastructure and Investor Economics

Bitcoin digital currency [56] is an electronic payment system based on cryptography and a self-governing open-source financial co-operative. Initially it was just a social experiment and concerned only some enthusiasts. However eventually a number of companies have started trading bitcoins for real money. One year ago, in April 2013, the leading financial magazine The Economist recognized bitcoin as a major disruptive technology for finance and famously called bitcoin “digital gold”. We can consider that the history of bitcoin as a mainstream financial instrument started at this moment.



Fig. 2. The bitcoin market capitalization in the last 12 months.

Our starting point of April 2013 coincides more or less with bitcoin achieving prices of 50 USD (and above), the market capitalization exceeding 1 billion dollars, and an important shift in the nature of the ownership of the bitcoin infrastructure. In a great simplification, before April 2013, one bitcoin was rarely worth more than 5-50 dollars, and new bitcoins were produced by amateurs on their PCs. Then a new sort of high-tech industry emerged. Specialized equipment (ASIC machines) whose only purpose is to produce new bitcoins. Such machines are called miners and are increasingly sophisticated [23]. Bitcoin then rapidly switched to the phase where new bitcoins are produced by a restricted¹. group of some 100,000 for-profit ‘bitcoin miners’ which people have invested money to purchase specialized equipment.

These last 12 months of bitcoin history, April 2013-April 2014, have seen an uninterrupted explosion of **investment** in bitcoin infrastructure. Surprisingly large sums of money have been spent on purchasing new mining equipment. All this investment has been subject to excessively rapidly decreasing returns. Bitcoin mining is a race against other miners to earn a fairly limited fraction of newly created bitcoins. We examine these questions in detail.

¹ The inventor of bitcoin has postulated that each peer-to-peer network node should be mining cf. Section 5 of [56]. In practice a strange paradox is that miners mine in very large pools cf. [70] and Table 2 in [25] and the number of ordinary peer-to-peer network nodes is in comparison incredibly low, falling below 8,000 recently cf. [16]

2.1 Investment in Hashing Power and Incredible 1000x Increase

The combined power of bitcoin mining machines has been multiplied by 1000 in the last 12 months cf. Fig. 3. However due to built-in excessively conservative monetary policy cf. [23], during the last 12 months, miners have been competing for a modest fraction of bitcoins yet to be generated. The number of bitcoins in circulation has increased only by 15 %, from 11 million to 12.6 million.

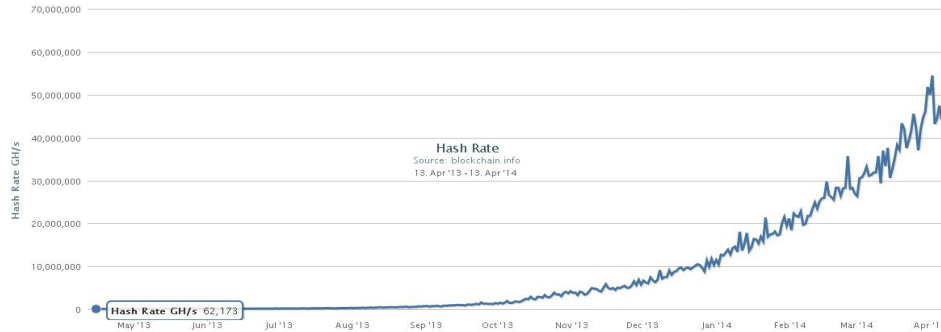


Fig. 3. The combined computing power in the collectively owned bitcoin ‘hashing infrastructure’ has nearly **doubled each month** and overall it has increased 1000 times in the last 12 months while the monetary supply has increased only by 1 % each month. The mining profitability has also been eroded accordingly. The income from any existing miner was divided by half nearly every month, cf Section 2.2.

A 1000-fold increase in hash power is a very disturbing fact. We lack precise data in order to investigate how much of this increase was due to improved technology (important increase in the speed of bitcoin mining machines, cf. [23]), and how much was due to a surge in investment: more people bought bitcoin miner machines. However it is certain that **a monumental amount of money** has been invested in these ASIC miner machines. It is not easy to estimate it accurately. If we consider that the current hash rate is composed primarily of KNC Neptune 28 nm miners shipped in December 2013 which for the unit price of 6000 USD can deliver some 0.5 TH/s, we obtain that miners have spent in the last four months maybe 600 millions of dollars on approximately 120,000 ASIC machines which are already in operation². In addition knowing that more miners were ordered and not yet delivered, it is quite plausible to assume that miners have spent already more than 1 billion dollars on ASIC miners.

As we have already explained, we don’t know exactly how this investment has evolved with time. However the near-doubling of the hash rate every month does certainly mean one thing: **excessively rapid decline in mining revenue** for every existing ASIC machine.

² Similar estimations can be found in [68]. If we consider that more recent miners with capacities between 1-3TH/s were already available for the same price to some privileged buyers many months before officially sold on the retail market, the total cost could be less than our 600M USD estimation.

2.2 Investors Facing Incredibly Fast Erosion of Profitability

This is due to the fact all miners are in competition for a fixed number of bitcoins which can be mined in one month. The rule of thumb is that exactly 25 bitcoins are produced every 10 minutes. Doubling the aggregate hash rate for all bitcoin miners means dividing each individual miner's income by 2 each month³. It means that investors can only hope for fast short-term gains, and that their income tends to zero very quickly.

Let us develop this argument further. Imagine that a miner invests 5,000 USD and that the income from mining in the first month was 2,000 USD. Is this investment going to be profitable? Most investors will instinctively believe it will be. However in actual bitcoin it isn't. In the recent 12 months the hash power has been decreasing approximately twice each month. We need to look at the following sum:

$$1 + \frac{1}{2} + \frac{1}{4} + \frac{1}{8} + \dots = 2$$

We see that the total income is only **twice the income for the first month**. This is not a lot. In our example the investor will earn only 4,000 USD and has spent 5,000 USD. The investor does not make money, he makes a loss.

2.3 Dividend From Hashing

It is easy to calculate exactly how much money has already been earned by miners in freshly minted bitcoins multiplied by their present market price.

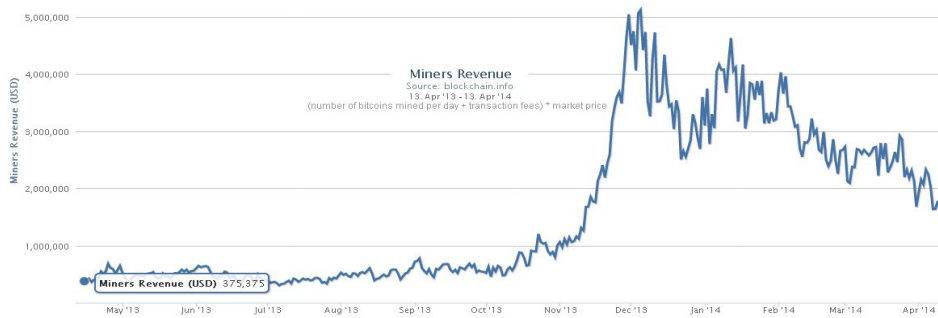


Fig. 4. The daily market price of freshly created bitcoins in the last 12 months.

If we estimate the area under Fig. 4 we see that currently all miners combined make some 60 millions of dollars only per month and have been paid roughly some 400 million dollars in mining dividend most of which was earned in the last 4 months. In this paper we neglect the cost of the electricity. Contrary to what was suggested in some press reports [42], this cost has so far remained relatively

³ Assuming that the cost of electricity is low compared to the income generated and that the price of bitcoin is relatively stable.

low for bitcoin mining in comparison to the high cost of ASIC miners which cost needs to be amortized over surprisingly short periods of time of no more than a few months as shown in Section 2.2.

2.4 Investors' Nightmare

The market for ASIC miner machines is very far from being fair and transparent. There is only a handful of ASIC companies [58] and from their web pages it seems that they might have manufactured and sold only a few thousands units each. In fact most manufacturers have omitted to tell their customers the actual size of their production. It has been much higher than expected, as shown by the hash rate, cf. Fig. 3. Most manufacturers worked with pre-orders. Customers were never able to know when machines were going to be delivered and how much the hash rate would increase in the meantime. Many manufacturers had important delays in delivery, frequently 3, 6, 8, 12 months [58]. Such delays decrease the expected income from mining by an **incredibly large factor**. We give some realistic examples which based on personal experiences of ourselves and our friends:

1. If for example a miner have ordered his device from ButterflyLabs and the device is delivered 12 months later. He earns roughly 1000 times less than expected (cf. Fig. 3), and even if the price of bitcoin rises 10 times during this period, cf. [26], he still earns maybe 100 times less than expected (!).
2. ButterflyLabs are not the worst. Many miners ordered devices from suppliers which do NOT even exist, and were pure criminal scams, even though they advertise on the Internet and their machines are frequently compared to legitimate ASIC manufacturers on web sites such as https://en.bitcoin.it/wiki/Mining_hardware_comparison which have NOT attempted to distinguish between criminal scams and genuine manufacturers. See Appendix of [25] and <http://bitcoinscammers.com> for specific examples.
3. A San Francisco-based startup HashFast currently embroiled in many federal fraud lawsuits related to production delays (3 months or longer) and the fact that they promised to refund their customers in bitcoins. However the market price of bitcoins went up significantly. In May 2014 they denied bankruptcy rumors and announced that they will lay off 50 % of its staff [60, 58].
4. Another miner ordered his device from BITMINE.CH (also near bankruptcy) and the device was delivered with 6 months delay, he earns roughly 64 times less than expected. Even if the price of bitcoin rises 4 times during this period, and even if BITMINE.CH compensates customers by increasing hash rate by 50 %, he still earns maybe 10 times less than expected (!).
5. In another example a miner ordered his device from KNC miner or Cointerra, and the device was delivered with just a one month delay compared to the predicted delivery date. Here the miner earns just half of what was expected, which is already problematic but might be OK.

Overall it is possible to see that most miners were mislead when they ordered the ASIC machines. Miners were probably confused and expected mining profitability to be much higher than what they actually experienced when machines

were finally delivered. Accordingly many people **lost money** in the bitcoin mining business (see also Section 2.3). In addition, many of those who made profits have seen their bitcoins disappear in large-scale thefts, cf. [32].

2.5 Bitcoin Popularity and Bitcoin as Medium of Exchange

Bitcoin has certainly been very popular among investors in the last 12 months. Has it been popular among the general public? Are they adopting bitcoin as a currency in order to carry ordinary transactions? In Fig. 5 we show the Google trends for the keyword bitcoin. We see that the interest in bitcoin⁴ is not growing. In May 2014 there were alarming reports about the total number of full bitcoin network nodes dropping to dangerously low levels of less than 8,000 nodes, cf. [16].

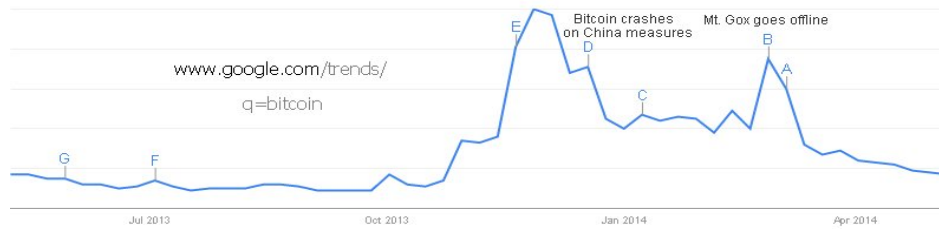


Fig. 5. Bitcoin popularity as a keyword in Google web search queries.

It appears that bitcoin is **not used a lot** as a currency or payment instrument. The number of transactions in the bitcoin network is NOT growing, cf. Fig. 6 and it can sometimes decrease. The number of merchants accepting bitcoin has been growing recently cf. [67] however the number of transactions wasn't.

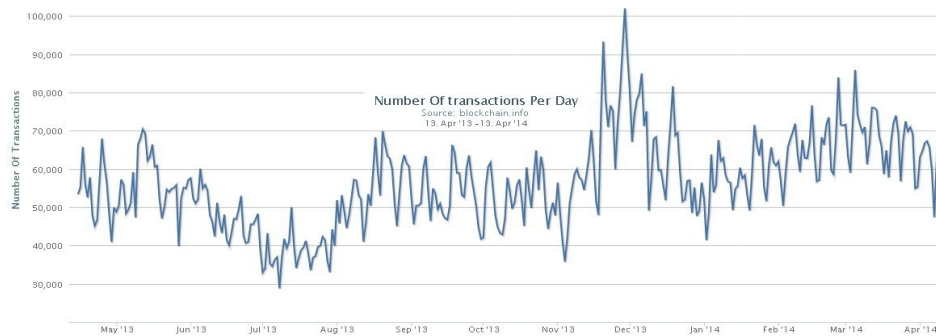


Fig. 6. The average number of transactions per day has remained relatively stable in the last 12 months. It remains between 40,000 and 80,000 and it can decline rather than increase during certain months of activity.

⁴ It has been observed for a very long time that the bitcoin market price cf. Fig. 2 and the popularity of bitcoin in Google search cf. Fig. 5 are strongly correlated.

Things get more complicated if we want to look at the transactions in volume. An interesting tool which allows to distinguish between small and large transactions and to visualise their distribution are the real-time graphs produced by <http://www.bitcoinmonitor.com/> cf. Fig. 7, cf. also [67]. However these graphs and much of the other data on transaction volume remain very seriously biased by the amounts which bitcoin users return to themselves. This is mandatory in all bitcoin transactions and makes analysis difficult⁵.

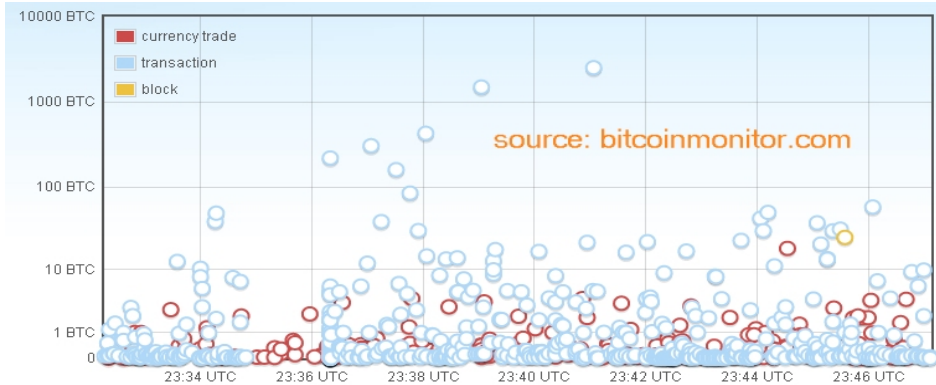


Fig. 7. Bitcoin transactions and the amounts involved displayed in real time over a period of 15 minutes. Each circle represents a single transaction, a yellow circle is the initial 25 BTC mining event, blue circles are bitcoin transactions on the blockchain, and red transactions are currency exchange transactions (not necessarily recorded in the bitcoin blockchain).

Several press reports have **WRONGLY** claimed that bitcoin has surpassed Western Union and is catching up with PayPal [76, 53]. These reports are based on bitcoin transaction volume figures which are artificially inflated. They do NOT reflect the actual bitcoin economy. It is easy to see that there is NO easy way to reliably estimate the transaction volume from the blockchain data⁵. The Fitch rating agency has attempted to obtain more accurate data [39]. We learn that bitcoin transaction volume is 68 M\$ per day [2 April 2014] and it remains “small relative to [...] traditional payment processors”. A recent press report claims that the transaction volume was at the lowest level in 2 years [33] based on one imperfect method⁶ to eliminate the amounts people return to themselves⁵. The nature of bitcoin makes that we do NOT have a truly reliable

⁵ It is very difficult to reliably estimate the transaction volume from the blockchain data alone. Truly accurate estimations are impossible to obtain. A particular problem are the actions of some bitcoin addresses which hold very large balances and return change to themselves at new freshly created addresses. Another problem are outliers cf. [67].

⁶ Blockchain.info provides both the misleading artificially inflated figures at <http://blockchain.info/charts/output-volume> and their estimation of the actual transaction volume by their own (imperfect) proprietary method cf. <http://blockchain.info/charts/estimated-transaction-volume>, cf. also [33, 39, 67].

source of data on actual bitcoin transactions. However it is possible to see that bitcoin is still about 400 times smaller than VISA, cf. Fig. 8.

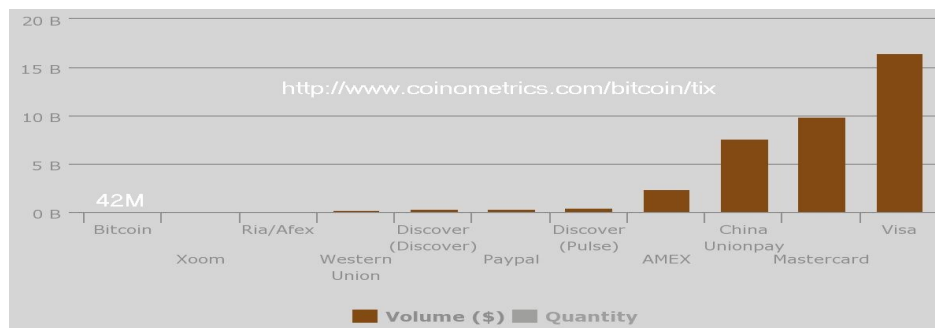


Fig. 8. The daily volume in USD comparison for Bitcoin, Paypal VISA and other major payment processors, September 2014.

Another method to measure the success of bitcoin is to count the unique users of bitcoin wallet applications. Their number has reached 1 million in January 2014 1.5 million was attained in April 2014, and the were 1.6 million in May 2014 ⁷. This growth is quite positive even though the number of bitcoin transactions is not increasing, as seen in Fig. 6.

We propose an alternative measure of the success of bitcoin as a currency: it will be the transaction fees. The more people are willing to pay in order to transfer money from one person to another using the bitcoin technology, the more successful it is. However we should NOT report fees in bitcoins (as in earlier version of this paper), but in US dollars.

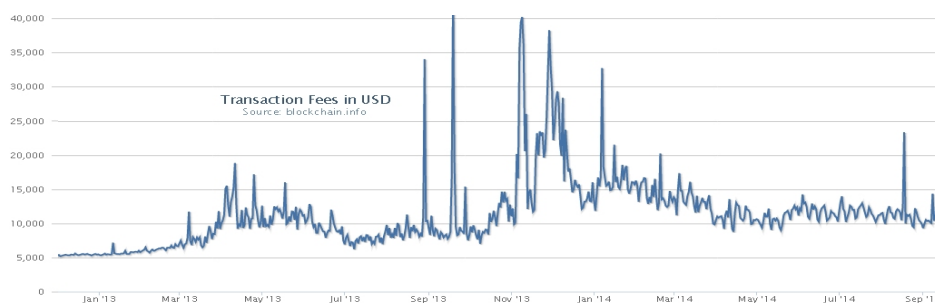


Fig. 9. The daily bitcoin transaction fees in USD, Jan. 2013-Sept. 2014.

We don't have great news in this space, the income from fees has been stable or declining. cf. Fig. 9.

⁷ Cf. <http://www.coindesk.com/blockchain-info-reaches-one-million-wallets/> then <https://blog.blockchain.com/2014/04/14/blockchain-15m-users/> and <https://coinreport.net/blockchain-passes-1-6-million-users-mark/>

2.6 Analysis of Bitcoin From The Point of View of Investors

In the previous sections we have seen that the bitcoin ‘investment economy’ (mining or holding bitcoins for profit) has been thriving in the recent 12 months, while it is very hard to claim that we have seen any growth in adoption of bitcoin in ordinary e-commerce cf. Fig. 9. Moreover we were surprised to discover that the number of active miners seems was much larger than the number of ordinary bitcoin users see Section 2 and [16].

Consequently we consider that until now the bitcoin business was primarily about some investors (A) spending some 1000 million dollars on mining hardware, and other investors (B) which preferred to buy or use these newly created bitcoins for 400 million dollars and holding them.

We can now argue that the second group (B) has potentially spent MUCH more than 400 million dollars. This is due to the fact that only a small fraction of bitcoins was manufactured in the last 12 months. Investors who in the last 12 months have purchased newly created bitcoins for 400 million dollars (due to Fig. 4) have also purchased a lot more bitcoins from previous owner of bitcoins who are free riders: people who have paid/invested very little mining or purchasing some bitcoins earlier. We lack any precise data but in order to be able to pay some 400 M in to miners (A) ⁸, investors (B) must have injected into the bitcoin economy a possibly much larger sum of cash money (dollars). Let us assume that this was 2 billion dollars. This amount is hard to estimate from available data but it is probably a small multiple of 600 M and it cannot be higher than 5 billion dollars, the peak value at Fig. 2.

We can observe that the reason why so much money was made by owners of older coins was the monopoly rent: miners (A) were convinced to mine for this particular crypto currency which has influenced further investors (B) to provide additional funds also for this market. It is probably correct to assume that this is substantially more than the total amount of money invested in mining Litecoin and other crypto currencies, based on the fact that the total Market capitalization of all alternative currencies combined remains small compared to bitcoin, cf. <http://www.cryptocoincharts.info/v2/coins/info>.

Both investment decisions (A,B) have been made on expectation that the bitcoin market price will rise. In fact during the last 12 months the price has been increasing⁹ (a lot) just during just one month at the end of 2013 after which we have seen a long painful correction cf. Fig. 2.

The idea that bitcoin market price in dollars will appreciate in the future is based on several premises which in our opinion are more irrational than rational:

⁸ which has paid for some of their 600+ millions of dollars in hardware expenses

⁹ This spectacular increase is now suspected to be an effect of a monumental market manipulation. An anonymously published report claims that up to 650,000 bitcoins were bought by two algorithms with money which is suspected to be paid from the customer money held as outstanding balances at the infamous MtGox exchange, cf. [26].

1. Bitcoin is expected to imitate the scarcity of rare natural resources such as Gold [34] and for this purpose bitcoin has a fixed monetary supply.
2. However the scarcity of bitcoins is not natural. It is NOT a hard reality. It is really totally **artificial**. It is mandated by the bitcoin specification and software [56, 57]. This property is not written in stone. It is frequently criticized [23, 77] and it CAN be changed if a majority of miners agree, cf. [23, 40].
3. Investors might be overestimating the importance of bitcoin in the economy in the future: the adoption of bitcoin as a currency or payment instrument cf. Section 2.5.
4. This expectation does not take into account the ‘alt-coins’ (competitors to bitcoin). Alt-coins clearly break the rule of fixed monetary supply of coins and can be created at will, cf. Section 5.6. It cannot be guaranteed that the current monopoly situation of bitcoin is going to last.

Various surveys show that about 50 % of people involved with bitcoin do very naively believe that bitcoin will be worth 10,000 USD at the end of 2014, see [66]. Extremely few people have predicted that bitcoin would collapse: one university professor have claimed that bitcoin will go down to 10 USD by June 2014 [51]. This prediction was already largely proven wrong.

2.7 What Does This Monumental Investment Pay For?

We have estimated that for-profit bitcoin miners (A) have invested some 1,000 M dollars in bitcoin infrastructure, while at the same time other investors (B) have invested a yet larger sum of cash money, maybe 2,000 M on buying bitcoins probably driven by a naive¹⁰ expectation that they will rise in the future.

Now the interesting question is, what these **monumental investments** pay for? Knowing that the bitcoin adoption as a medium of exchange is not expanding as suggested by Fig. 3 these investments went **mostly into building an excessive quantity of hashing power** (1000x increase). In [61] Sams writes:

”The amount of capital collectively burned hashing fixes the capital outlay required of an attacker to obtain enough hashing power to have a meaningful chance of orchestrating a successful double-spend attack on the system [...] The mitigation of this risk is valuable, [...]”

We have this expensive and powerful hashing infrastructure. We could call it (ironically) **the Great Wall of Bitcoin** which name is justified by the fact that bitcoin miners have invested roughly about 1 billion dollars to build it and it is expected to protect bitcoin against attacks. This leads to the following working hypothesis which is really about economics of information security and which we will later dispute. **Maybe** one must spend a lot of money on the bitcoin hashing infrastructure in order to achieve good security. Maybe there is a large cost associated with building a global distributed financial infrastructure totally independent from governments, large banks, the NSA, etc. Maybe one can hardly hope to spend less and security against double spending attacks has some inherent price which needs to be paid.

We claim that this sort of conclusion is **MISTAKEN** and the devil is in the details. In this paper we are going to show that the amount of money needed to commit for-profit double spending attacks remains **moderate**, it has nothing to do with the 600 M dollars spent on ASIC miners in activity. It is a fallacy to consider that money burnt in hashing could or should serve as effective protection against attacks. This is because money at risk, for example in large transactions, can be substantially larger than the cost of producing a fork in the block chain. We claim that nearly anybody can commit double spending attacks, or it will become so in the future. We claim that the current 1 billion dollar investment in bitcoin infrastructure is **neither necessary nor sufficient** to build a secure digital currency. It simply **does NOT serve as effective protection** and does not deliver the security benefits claimed. This is due to misplaced ideology such as the so called *The Longest Chain Rule*, important technicalities, dangerous centralization and insufficient network neutrality, and lack of the most basic features in Satoshi bitcoin specification. We intend to show that it is possible to fix the double spending problem in bitcoin with cryptography and timestamping, and the cost of doing so is in general much lower than expected.

¹⁰ The bitcoin market price is rather going down ever since December 2013 cf. Fig. 2 and [26].

3 Short Description of How Bitcoin Works

We have essentially one dominant form of bitcoin software [57] and the primary “official” bitcoin protocol specification is available at [71]. However bitcoin belongs to no one and the specification is subject to change. As soon as a majority of people run a different version of it, and it is compatible with the older software, it becomes the main (dominating) version.

Bitcoin is a sort of distributed electronic notary system which works by consensus. We have a decentralized network of nodes with peer-to-peer connections. The main functionality of bitcoin is to allow transfer of money from one account to another. At the same time network participants create new coins and perform necessary checks on previous transactions which are meant to enforce “honest” behavior. Integrity of bitcoin transactions is guaranteed by cryptographic hash functions, digital signatures and a consensus about what is the official history of bitcoin. Below we provide a short, concise description of how bitcoin works.

1. We have a decentralized network of full bitcoin nodes which resembles a random graph. Network nodes can join and leave the network at any moment.
2. Initially, when bitcoins are created, they are attributed to any network node willing and able to spend sufficient computing power on solving a difficult cryptographic puzzle. We call these people “miners”.
3. It is a sort of lottery in which currently 25 bitcoins are attributed to one and unique “winner” every 10 minutes.
4. With time this quantity decreases which has been decided by the creator(s) of bitcoin in order to limit the monetary supply of bitcoins in the future.
5. The legitimate owner of these 25 bitcoins is simply identified by a certain public key (or several public keys).
6. A public ledger of all transactions is maintained and it is used to record all transfers of bitcoins from one account (one public key) to another.
7. Bitcoins are divisible and what is stored on the computers of the network participants are just the private keys.
8. The amount of bitcoins which belongs to a given key at a given moment is stored in the public ledger, a copy of which is stored at every full network node application and constantly kept up to date.
9. Miners repeatedly compute a double SHA-256 hash H2 of a certain data structure called a block header which is a combination of events in the recent bitcoin history and which process is described in more detail in [23, 24, 71].
10. This H2 must be such that when written as an integer in binary it will have some 64 leading zeros which corresponds to the difficulty level in the bitcoin network at a given moment (cf. [23]).
11. The difficulty level can go up and down depending on how many people participate in mining at a given moment. It tends increase and it does rarely decrease ¹¹.

¹¹ In bitcoin it has increased at truly unbelievable speed, cf. Fig. 3. In other crypto currencies it is more likely to decrease in a substantial way as we will see in this paper

12. More precisely, in order to produce a winning block, the miner has to generate a block header such that its double SHA-256 hash H2 is smaller than a certain number called target.
13. This can be seen as essentially a repeated experiment where H2 is chosen at random. The chances of winning in the lottery are very small and proportional to one's computing power multiplied by 2^{-64} . This probability decreases with time as more miners join the network. The bitcoin network combined hash rate increases rapidly, see Fig. 3.
14. If several miners complete the winning computation only one of them will be a winner which is decided later by a consensus.
15. Existing portions of the currency are defined **either** as outputs of a block mining event (creation) **or** as outputs of past transactions (redistribution of bitcoins).
16. The ownership of any portion of the currency is achieved through chains of digital signatures.
17. Each existing quantity of bitcoin identifies its owner by specifying his public key or its hash.
18. Only the owner of the corresponding private key has the power to transfer this given quantity of bitcoins to other participants.
19. Coins are divisible and transactions are multi-input and multi-output.
20. Each transaction mixes several existing quantities of bitcoins and re-distributes the sum of these quantities of bitcoin to several recipients in an arbitrary way.
21. The difference between the sum of inputs and the sum of all outputs is the transaction fee.
22. Each transaction is approved by all the owners of each input quantity of bitcoins with a separate digital signature approving the transfer of these moneys to the new owners.
23. The correctness of these digital signatures is checked by miners.
24. Exactly one miner approves each transaction which is included in one block. However blocks form a chain and other miners will later approve this block. At this moment they should also check the past signatures, in order to prevent the miner of the current block from cheating. With time transactions are confirmed many times and it becomes increasingly hard to reverse them.
25. All this is effective only for blocks which are in the dominating branch of bitcoin history (a.k.a. the Main Chain). Until now great majority of events in the bitcoin history made it to become the part of this official history.
26. In theory every bitcoin transaction could later be invalidated. A common solution to this problem is to wait for a small multiple of 10 minutes and hope that nobody will spend additional effort just in order to invalidate one transaction. These questions are studied in more detail in Section 6.
27. Overall the network is expected to police itself. Miners not following the protocol risk that their blocks will be later rejected by the majority of other miners. Such miners would simply not get the reward for which they work.
28. There is no mechanism to ensure that all transactions would be included by miners other than the financial incentive in the form of transaction fees.

29. There is no mechanism to store a complete history of events in the network other than the official (dominating) branch of the block chain. Memory about past transactions and other events in the network may be lost, cf. [32].

4 Asynchronous Operation And The Longest Chain Rule

According to the initial design by Satoshi Nakamoto [56] the initial bitcoin system is truly decentralized and can be to a large extent asynchronous. Messages are broadcast on the basis of *best effort*. Interestingly the system can support important network latency and imperfect diffusion of information. Information does not have to reach all nodes in the network in the real time and they could be synchronized later and can agree on a common history at any later moment.

The key underlying principle which allows to achieve this objective is **the Longest Chain Rule** of Satoshi Nakamoto [56]. It can be stated as follows:

1. Sometimes we can have what is called *a fork*: there are two equivalent solutions to the cryptographic puzzle.
2. Currently a fork happens less than 1 % of the time, see Table 1 in [25]. However it clearly could and would be more frequent in poor network conditions or due to certain attacks, cf. [35, 25].
3. Different nodes in the network have received one of the versions first and different miners are trying to extend one or the other branch. Both branches are legitimate and the winning branch will be decided later by a certain type of consensus mechanism, automatically without human intervention.
4. The **Longest Chain Rule** of [56] says that if at any later moment in history one chain becomes longer, all participants should switch to it automatically.

With this rule, it is possible to argue that due to the probabilistic nature of the mining process, sooner or later one branch will automatically win over the other. For example we expect that a fork of depth 2 happens with the frequency which is the square of previous frequency, i.e. about 0.01 % of the time. This is what was predicted and claimed by Satoshi Nakamoto [56]. This is precisely what makes bitcoin quite stable in practice. Forks are quite rare, and wasted branches of depth greater than one are even much less frequent, see Table 1 in [25]. All this is however theory or how the things have worked so far in recent bitcoin history. In practice it is more complicated as we will see in this paper.

4.1 Why Do We Have This Rule?

This Satoshi rule can be seen as an early and imperfect attempt to solve the problem of double spending. More generally in some way it also is a yet another attempt to solve some version of the long-standing so called "Byzantine Generals" problem [49], which is also solved by voting and has been studied by computer scientists since 1982. This sort of problems are known to be very difficult to solve in practice. In contrast in current bitcoin literature **the Longest Chain Rule** is somewhat taken for granted without any criticism. For example in the very highly cited recent paper [35] we read: "To resolve forks, the protocol

prescribes miners to adopt and mine on the longest chain.”. In this paper we are going to show that this rule is highly problematic and it leads to very serious hazards.

4.2 Genius or Engineering Mistake?

It is possible to see that this consensus mechanism in bitcoin has two distinct purposes:

1. It is needed in order to decide **which blocks** obtain a monetary reward. It allows to resolve potentially arbitrarily complex fork situations in a simple, elegant and convincing way.
2. It is also used to decide **which transactions** are accepted and are part of official history, while some other transactions are rejected (and will not even be recorded, some attacks could go on without being noticed, cf. [32]).

Here is the crux of the problem. The creator of bitcoin software Satoshi Nakamoto has opted for a solution of extreme elegance and simplicity, one single (longest chain) rule which regulates both things. This is neat.

However in fact it is possible to see that this is rather a mistake. In principle there is NO REASON why the same mechanism should be used to solve both problems. On the contrary. This violates one of the most fundamental principles of security engineering: the principle of *Least Common Mechanism* [Saltzer and Schroeder 1975], cf. also [20]. One single solution rarely serves well two distinct problems equally well without any problems.

We need to observe that the transactions are generated at every second. Blocks are generated every 10 minutes. In bitcoin the **receiver of money is kept in the state of incertitude**¹² **for far too long** and this **with no apparent reason**. The current bitcoin currency produces a situation of discomfort and dependency or peculiar sort. Miners who represent some wealthy people in the bitcoin network, are in a privileged position. Their business of making new bitcoins has negative consequences on the smooth processing of transactions. It is a source of instability which makes people wait for their transactions to be approved for far too long time¹². This violates also another very widely accepted principle of security engineering: the principle of *Network Neutrality*. We claim that it should be possible to design a better mechanism in bitcoin, which question we will study later in Section 7.1.

4.3 Consensus Building

The common history in bitcoin is agreed by a certain type of democratic consensus. In the initial period of bitcoin history people mined with CPUs and the consensus was essentially of type **one CPU one vote**. However nowadays people mine bitcoins with ASICs which are roughly ten thousand times more powerful

¹² This period of incertitude is even much longer for large transactions: for example we wish to withdraw some 1 million dollars which is currently about 2200 bitcoins, we should probably wait for some 100 blocks or 10 hours. Otherwise it may be profitable to run the double spending attack which we study later in Fig. 10, page 29.

than CPUs (more precisely they consume ten thousand times less energy, cf. [23]). Bitcoin miners need now to invest thousands of dollars to buy specialized devices and be at the mercy of the very few suppliers of such devices which tend NOT to deliver them to customers who paid them for extended periods of time, see Appendix of [25]. It appears that the democratic base of bitcoin has shrunk and the number of active miners has decreased.

Nevertheless in spite of these entry barriers the income from mining remains essentially proportional to the hashing power contributed to the network (in fact not always, see [25, 35]). This is good news: malicious network participants which do not represent a majority of the hash power are expected to have difficult time trying to influence the decisions of the whole bitcoin network.

In a first approximation it appears that the Longest Chain Rule works well and solves the problem of producing consensus in a very elegant way. Moreover it allows asynchronous operation: the consensus can propagate slowly in the network. In practice it is a bit different. In this paper we are going to challenge this traditional wisdom of bitcoin. In Section 6 and in later Sections 10 and 11 we are going to argue that more or less anyone can manipulate virtual currencies for profit.

In fact we are not even sure if the Longest Chain Rule is likely to be applied by miners as claimed. This is what we are going to examine first.

4.4 The Longest Chain Rule - Reality or Fiction

This rule is taken for granted and it seems to work. However. We can easily imagine that it will be otherwise. There are several reasons why the reality could be different:

1. We already have a heterogeneous base of software which runs bitcoin and the protocols are on occasions updated or refined with new rules. On occasions there will be some bugs or ambiguities. This has already happened in March 2013. There were two major versions of the block chain. For 6 hours nobody was quite sure which version should be considered as correct, both were correct. The problem was solved because the majority of miners could be convinced to support one version. Apparently the only thing which could solve this crisis was human intervention and influence of a number of key people in the community, see [11].
2. Open communities tend to aggregate into clusters. These clusters could produce distinct major software distributions of bitcoin, similar to major distributions of Linux which will make some conflicting choices and will not necessarily agree on how decisions can be made. For example because they promote their brand name and some additional business interests. We already observe a tendency to set up authoritative bitcoin authorities on the Internet such as `blockchain.info`. Software developers are tempted to rely on these web services rather than work in a more “chaotic” fully distributed asynchronous way. People can decide to trust a well-established web service rather than network broadcasts which could be manipulated by an attacker.

3. This is facilitated by the fact that bitcoin community produces a lot of open source software and free community web services.
4. It is also facilitated by the fact that the great majority of miners mine in pools. Moreover they tend to “flock to the biggest pools” [25, 70]. Just one pool reportedly based in Ukraine was recently controlling some 45 % of the whole bitcoin network, see Table 2 in [25].
The pool managers and not individual miners are those who can decide which blocks are mined and which transactions will be accepted. The software run by pools is not open source and not the same as run by ordinary bitcoin users. In particular they can adopt various versions or exceptions from The Longest Chain Rule. In Section 8 we will propose further new ways for pool managers to attack the bitcoin network.
5. More importantly participants could suspect or resist an attack by a powerful entity (which thing allows effectively to cancel past transactions and double spend) and they will prefer to stick to what their trusted authority says.
6. Even more importantly these sub-communities of bitcoin enthusiasts will also contain professional for-profit bitcoin miners who can be very influential because for example they will be sponsoring the community. Their interest will be that their chain wins because they simply need to pay the electricity bill for it. If another chain wins, they have lost some money.

We see that sooner or later we could have a situation in the bitcoin community such that people could agree to disagree. If one group have spent some money on electricity on one version of the chain, their interest will be to over-invest now in order to win the race. Over-investment is possible because there is always spare capacity in bitcoin mining which has been switched off because it is no longer very profitable. However the possibility to earn money also for previous blocks which money would otherwise been lost can make some operations profitable again. Such mechanisms could also be used to cancel large volumes of transactions and commit large scale financial fraud, possibly in combination with cyber attacks. This can be done in such a way that nobody is to blame and everything seems normal following the Longest Chain Rule. **Losses will be blamed on users** not being careful enough or patient enough to confirm their transactions.

4.5 Summary: Operation in Normal Networks

We have seen that bitcoin has been designed to operate in **extreme** network conditions. Most probably bitcoin could operate in North Korea or in Syria torn by war operations, or in countries in which the government is trying to ban bitcoin or is very heavily limiting the access of the citizens to fast computer networks such as the Internet.

In contrast in the real life, the propagation in the global network of bitcoin client applications is quite fast: the median time until a node receives a block is 6.5 seconds whereas the average time is 12.6 seconds, see [30, 31]. The main claim in this paper is that in normal (fast) networks the Longest Chain Rule is not only not very useful, but in fact it is sort of **toxic**. It leads to increased risks of

attacks or just unnecessary instability and overall slower financial transactions [38, 21].

Before we consider how to reform or replace the Longest Chain Rule, we look at the questions of monetary policy in bitcoin. Later we will discover that both questions are related, because deflationary policies erode the income of honest miners which in turn increases the risk of for-profit block chain manipulation attacks, cf. Sections 10, 11 and 12.

5 Deflationary Coins vs. Growth Coins

It is possible to classify crypto currencies in two families:

1. **Deflationary Currencies** in which the monetary supply is fixed¹³. For example in bitcoin and Litecoin.
2. **Growth Currencies** in which the monetary supply is allowed to grow at a steady pace, for example in Dogecoin.

Bitcoin belongs to the first family. This is quite unfortunate. In [77] we read:

”This limited-supply issue is the most common argument against the viability of the new currency. You read it so often on the web. It comes up time and again”.

In the following three subsections we look at the main arguments why a fixed monetary supply in bitcoin is heavily criticized. We need to examine the following four questions:

1. comparison to gold, other currencies and commodities
2. volatility
3. miner reward vs. fees
4. competition with other cryptocurrencies.

5.1 Comparison to Gold Other Currencies and Commodities

Bitcoin is frequently compared to gold and The Economist called it “Digital Gold” in April 2013, cf. [34]. However actually gold belongs to the second category: the worldwide supply of gold grows every year due to gold mining and other factors, with a yearly increase of the quantity of gold by some 0.5 - 1 %. In fact when bitcoin mandates a fixed monetary supply, ignoring the growth of the bitcoin economy, arguably we enter an area of misplaced ideology and monetary non-sense. If the economy grows substantially, the monetary supply should probably follow or the currency is not going to be able to make a correct connection between the past and the future. It is widely believed that business does not like instability. It is well known in traditional economics that deflation discourages spending, creates an expectation that prices would further decrease with no apparent limit.

To the best of our knowledge, no currency and no commodity has ever had in the human history a totally fixed quantity in circulation. This is clearly an artificial property which makes that bitcoin is like no other currency and like no other commodity. This is expected to have very serious consequences and could be potentially fatal to bitcoin in the long run.

¹³ These are also called Log Coins in [77] which is not quite correct because the monetary supply in bitcoin does not grow logarithmically.

5.2 The Question of Volatility

Here the argument is that basically deflationary currencies are expected to have **higher volatility** due to the existence of people holding large balances for speculation. In [61] Robert Sams claims that deflationary currencies lead to a “toxic amount of exchange rate volatility” providing yet another reason for users to “run away” from using these currencies as a medium of exchange.

This is actually not so obvious and requires some explanation. We see one good reason for that. In a recent report published by Bank of England [1], we read that one of the key problems of bitcoin is that the supply of money does NOT respond to variations in demand. As a consequence they predict “welfare-destroying volatility in economic activity”. They point out that “growth rate of the currency supply could be adjusted to respond to transaction volumes in (close to) real time”, cf. [1].

5.3 Miner Reward

We need to recognize the role of miners in digital currencies. In [77] Sams writes:

”The amount of capital collectively burned hashing fixes the capital outlay required of an attacker to obtain enough hashing power to have a meaningful chance of orchestrating a successful double-spend attack on the system [...] The mitigation of this risk is valuable, [...]”

Now the deflationary currencies do with time decrease the reward for miners. This is highly problematic. In [77] citing J. Kroll from Princeton university we read: ”If you take this away, there will be no incentive for people to keep contributing processing power to the system [...] ”If the miner reward goes to zero, people will stop investing in miners,”. Then the hash rate is likely to decrease and bitcoin will no longer benefit from a protection against double spending attacks, cf. Section 6.

Moreover Kroll explicitly says that the problem is NOT solved by transaction fees and says: [...] You have to enforce some sort of standard payment to the miners, [...] change the system so that it keeps creating bitcoins. In a paper presented at WEIS 2013 and co-authored by Kroll [48]. this is presented as a clear dilemma, either break the monetary policy or increase the fees:

The only way to preserve the system’s health will be to change the rules, most likely either by maintaining mining rewards at a level higher than originally envisioned, or making transaction fees mandatory.

5.4 Problems With Increasing The Fees

The question of whether higher fees could be effectively mandated in the current bitcoin is discussed by Kroll in Sections 4.2 and 6.2 of [48].

Now it is possible to see that it would be a very bad idea to increase the fees. This is brilliantly explained by Robert Sams in [61]. The argument is that basically sooner or later “deflationary currencies” and “growth currencies” will

be in competition. Then all the other things being more or less in equilibrium, in deflationary currencies most of the profit from appreciation will be received by holders of current coins through their appreciation. Therefore less profit will be made by miners in these currencies. However miners control the network and they will impose higher fees. In contrast in growth coins, there will be comparatively more seignorage profit and it will be spent on hashing. Miners will make good profits and transaction fees will be lower. Thus year after year people will prefer growth currencies due to lower transaction fees.

Overall we see that this is crucial question of how the cost of the infrastructure necessary for the maintain a digital currency is split between new adopters (which pay for it through appreciation) and users (which pay through transaction fees). It is obvious that there exists an optimal equilibrium between these two sources of income, and that there is no reason why the creator of bitcoin would get it right, some adjustments will be necessary in the future.

5.5 The Appreciation Argument

There is yet another argument: it is possible to believe that bitcoin will appreciate so much that halving the reward every 4 years will be absorbed by an increase in bitcoin price. This means an extreme amount of deflation (double every 4 years) making it tempting to hoard bitcoins, which further decreases the amount of bitcoins in actual usage and makes people hoard bitcoins even more.

We claim that this is very unlikely. This is mainly because the digital economy is not expected to double every 4 years and even less it is expected to grow by sudden jumps at the boundaries of the intervals arbitrarily decided by the creator of bitcoin. We refer to Part 3 of [23], Sections 10, 11 and 12 for further discussion and concrete examples of predicted and actual devastating effects of sudden jumps in the miner reward.

5.6 On Self-Defeating Monetary Policies and Alt-Coins

The bitcoin monetary policy is challenged by the very existence of alternative crypto currencies. In [10] we read:

[...] the constant volume of Bitcoins faces an unlimited number of alternative crypto-currencies and, therefore, an unlimited number of alternative coins. [...] Clearly, an investor may move his assets from Bitcoins to a competing currency, thereby freely moving in a space with an unlimited number of coins.

It is easy to see that the bitcoin restricted monetary supply is a **self-defeating** property: if bitcoin is limiting the monetary supply beyond what is ‘reasonable’, and if as a result of this bitcoin economy suffers from excessive deflation, bitcoin adopters are likely to circumvent this limitation by using alternative coins. This can erode the dominant position of bitcoin.

5.7 The Future

Can Bitcoin change its reward rules and the monetary policy given that fixed monetary supply is problematic as shown above? User DeathAndTaxes, a highly respected frequent contributor in `bitcointalk.org` forum wrote on 10 May 2014:

”The bitcoin protocol reward is not going to be changed. Period.”

Source:

<https://bitcointalk.org/index.php?topic=600436.msg6657579#msg6657579>

5.8 Who Can Change The Bitcoin Monetary Policy?

There is an interesting additional question who has the power to change the bitcoin monetary policy, is it the majority of miners, ordinary bitcoin users, bitcoin developers, or is it that all must agree? This is a very complex and highly controversial question on which opinions differ rally a lot, see Sections 13.7 through 13.11 and [62, 40].

6 Is The Longest Chain Rule Helping The Criminals?

This section is the central section in this paper. We are going to show a simple attack which allows double spending. The attack is not very complicated and we do not claim it is entirely new.

Our attack could be called a 51 % attack however we avoid this name because it is very highly misleading. There are many different things which can be done with 51 % of computing power, (for example to run a mining cartel [25] or/and cancel/undo any chosen subset of past transactions) and many very different attacks have historically been called a 51 % attack.

We are in general under the impression that a 51 % attack is about holding more than 50 % of the hash power kind of permanently or for a longer period of time, while our attacks are rapid short-term attacks cf. Fig. 10 page 29.

6.1 Common Misconceptions About 51% Attacks

There many reasons why such attacks has not been properly understood and studied before in bitcoin community and in the bitcoin literature.

1. There is a large variety of attacks which could be or have been called a 51 % attack. Opinions or statement which might be true for some of these attacks are simply not true for other attacks. This creates a lot of confusion in the bitcoin community.
2. Great majority of people who discuss bitcoin make an implicit **wrong** assumption about a static nature of threats and attacks about bitcoin.
3. We hear about 51 % attack etc, entities who own or control 51 % of hash power and it seems that only incredibly powerful or very wealthy entities [17, 3] could execute such attacks and that they are "so amazingly cost-prohibitive to perform that were basically talking about a government focusing the full power of every top-secret ridiculously expensive supercomputer", cf. [59]
4. Many commentators stress that 51 % attack are only *theoretical* attacks, cf. [19, 3], try to convince us to "stop worrying" e.g. [59]. The official bitcoin wiki, does even consider that there are any real problems in bitcoin. The section about 51% attacks does NOT even get into the part entitled "Might be a problem". It appears in the following part entitled "Probably not a problem", cf. [13] which many people would maybe not read, why bother if it probably is not a problem?
5. In the original paper Satoshi have portrayed "a greedy attacker" being "able to assemble more CPU power than all the honest nodes", see Section 6 of Satoshi paper [56]. The attacker is also portrayed as having considerable "wealth" which he would endanger by engaging in the attack. It is clearly suggested that the attack would have little to gain and a lot to lose from being dishonest.

6. Satoshi has invented a term "CPU power" and always explicitly states the principle of "one-CPU-one-vote". In reality nowadays it is rather "one-ASIC-one-vote" and in the future it could be something yet different. A reasonable term is "**hash power**"¹⁴
7. In general a very common but also one of the **most serious mistakes** is to claim that 51% attacks occur when the attacker **owns** or is in **possession** of 51% of all the hash power.

This mistake is committed again and again by major Bitcoin experts and evangelists, cf. for example [56, 17, 59] to cite just a few. The official bitcoin wiki [13] has a subsection with this super highly misleading title: "Attacker has a lot of computing power". Quite happily just below they correct it and say it is rather about temporary control not ownership¹⁵

Nevertheless, the same confusion was made more recently by Cornell researchers in [36] which clearly very badly confuse between A) having 51 % of the mining power and B) launching a 51 % attack trying to convince the reader that A does not have to imply B while the real problem is that B can be executed without A.

Again attacks are presented as being exclusively about powerful entities who "can turn dishonest" all of the sudden, [36]. They fail to see that the key problem is the control (not ownership) of hash power for the purpose of mining blocks, and this can be **a lot** easier and cheaper.

8. Less people admit that the attacker could indeed be one single malicious pool which gathers more than 51 % of hash power under his sole control (controlling but not owning hash power).

It is worth noting that this has already happened at least once in both Bitcoin [36] and Litecoin [19]. However then it was claimed that pools reaching more than 51 % would have no reason to execute any sort of attack.

9. Another serious mistake is to consider that "control" is exclusive. For example in the Abstract of his paper Satoshi writes: "As long as a majority of CPU power is controlled by nodes that are not cooperating to attack the network they'll [...] outpace attackers". This is not correct in general. The key point is that **control is NOT exclusive**, both the miners and the attacker can have some control on the mining process. So "a majority of CPU power is controlled by nodes" as Satoshi says and also at the same time it

¹⁴ It can be measured in GH/s (Giga Hashes per second) which notion is almost never properly defined in a non-ambiguous way: one hash per second is capacity to hash one block header, which is two applications of SHA256 and which in turn is three applications of the underlying block cipher. In repeated hashing some of these computations do not have to be done, this is why we speak about "capacity to hash" rather than hashing, see [23] for a detailed analysis of this problem.

¹⁵ They explain that the exact scenario is when he "controls more than 50% of the network's computing power" and they make it clear it can be temporary: "for the time that he is in control". However almost to make things worse again, this official wiki at numerous places refers to another article about Bitcoin attacks written for more general audience [59] in which we see the repetition of the basic mistake to consider that 51% attacks are "so amazingly cost-prohibitive to perform".

could be controlled by the attacker in a more or less subtle and more or less invasive ways, cf. Section 8.3.

10. Many people stress that that 51% attacks, and for example double spending events would be visible to anyone to see on the public blockchain [17]. This is simply not true, the blockchain does NOT record double spending events, it rather hides them and would show only one transaction out of two, cf. also [32].
11. In reality the notion of a 51 % attack takes a very different meaning in a cloud computing world: the attacker does not need to own a lot of computing power, he can rent it for a short time, and then 51 % attack can have a surprisingly low cost.
12. Alternatively an attacker could also trick miners to help him to execute the attack without their knowledge and consent (man in the middle attacks). This is particularly easy with mining pools: the attacker just needs to compromise extremely few web servers used by tens of thousands of individual miners and he can command very substantial hash power without owning any of it. At this moment less than 10 pools control over two-thirds of all the hash power, cf. [73, 25].
13. It is important to remember that not only Satoshi did not predict ASIC mining and mining pools, but also he did **NOT specify** bitcoin fully in the sense that the mining pools typically use the Stratum protocol [65]. which was specified in 2012 and which at some moment took **an important strategic decision** which is clearly stated and documented in [65] in order to move the choice and the control of which transactions are included in a block from miners to the pool managers, see [65].
This decision **broke the bitcoin peer network** because miners do no longer have any incentive whatsoever ¹⁶ to support this network by running peer nodes, and the bitcoin network is now very seriously declining cf. [16].
14. In fact, even if large pools had only 10 % of hash power each, we should see reasons to worry: it would be sufficient to hack just 5 pool manager servers in order to be able to execute double spending attacks.
15. Nobody has yet stated under which exact assumption bitcoin is expected to be secure and there is a lot of ambiguity in this space. Knowing the assumption is crucial because if we have stated our assumption and bitcoin is later shown to be broken insecure, we can blame **either** the real world which does not satisfy our assumption, or the designers and engineers of bitcoin which have not been able to design a secure system based on this assumption. In other words we could determine without ambiguity who is to blame. In this respect Satoshi shows a bad example of not being clear about what his assumption is and yet explicitly several times claiming that his system is secure:

¹⁶ This decision also has definitely infringed on the initial intentions of Satoshi explicitly stated in Section 6 of his paper [56] where he explains that the fact that a block provides a monetary reward for the "creator of the block" is something which "adds an incentive for nodes to support the network". This incentive is now broken.

- A. For example in the abstract of his paper [56] Satoshi says that he assumes that "majority [...] are not cooperating to attack the network". Here Satoshi claims the system is secure under this assumption, which security claim is **not true** as people can easily be part of an attack without cooperating (as already explained above).
 - B. Now in the conclusion of his paper Satoshi again claims that the system is secure if "honest nodes control a majority of CPU power". which is a very different and **STRONGER** assumption than A. above: nodes could be not honest and deviate from the protocol for fun or for profit in a variety of creative ways without "cooperating" with any attacker. Does this stronger assumption make that bitcoin becomes secure? Of course not, the security result claimed by Satoshi is wrong again if you take it literally: even if honest nodes control a majority of hash power, because the control is not exclusive, bitcoin can still be attacked.
16. It is **nonsensical** to claim that the attacker would prefer to behave honestly, and that it is "more profitable to play by the rules" [56].
This is claimed by Satoshi on the grounds that the attacker should be able to "generate new coins" which would be an honest way to use his hash power, see Section 6 of [56]. Many other authors repeat this mistake, for example in [36] we read about "miners which may "hold 49 % of the [mining] revenue".
 17. In reality, in almost all¹⁷ bitcoin mining scenarios known to us, the attacker does NOT control the money from mining: he does NOT have the private keys used for mining. This is because **the whole process of mining requires exclusively the public keys**.
It would simply be an unnecessary mistake for any miner or for any mining pool to have the private keys around to be stolen by the attacker which targets the mining process. Therefore the attacker typically does NOT have an honest option at all¹⁸.
 18. The notion of 51 % attacks is also very highly misleading because presenting the hash power as a percentage figure does NOT make sense because the hash rate is measured at two different moments. Therefore the proportion of hash power used in attack is NOT a number between 0 and 100 %. It can easily be larger than 100 %.
In fact the relative hash power at one moment can be easily of the order of 500% and many times bigger than a few minutes later, see Fig. 18 on page 60 for an actual historical example.
 19. It was also wrongly assumed that the bitcoin adopters are more or less the same as miners, they own the devices and the computing power cannot change hands very quickly.
 20. It is in general not sufficient to trust the pools not to be malicious.
Attacks could be executed without the knowledge and consent of these companies by a single rogue developer.

¹⁷ With exception of attacks described in [43].

¹⁸ In contrast Satoshi have claimed that he always has such an option, in Section 6 of [56] we read: "he would have to choose between using it to defraud people by stealing back his payments, or using it to generate new coins."

21. Many bitcoin adopters did not anticipate that in the future bitcoin will have to compete with other crypto currencies and that hash power could instantly be moved from one crypto currency to another.
22. Attacks could also operate through re-direction of hash power in bulk to another pool, see for example later Sections 8.2 and 8.3.
23. People have wrongly assumed that bitcoin achieves very substantial computing power which no one can match, which is still the case today however it is highly problematic to see if this will hold in the future.
24. Many people did not predict that an increasing fraction of all available computing power is going to exist in the form of rented cloud miners which further facilitates the attacks.
This is due to several factors. Investing in wholly owned mining equipment has been excessively risky. this is both due to the impossibility to know if and when miners will effectively be delivered (cf. Appendix of [25] and Section 2.4) and due to the price volatility. In contrast investing in rented capacity could be nearly risk-free.
Another reason is that some large investors may have over-invested in large bitcoin mining farms consuming many Megawatts of electricity (we know from the press that such facilities have been built in Sweden, Hong Kong, USA, etc..) and now they want to rent some parts of it in order to get immediate cashflow and return on their investment.
25. Furthermore rented cloud miners can be seen as a method to absolve owners of hash power from any legal responsibility.
This does in addition lead to the possibility of running for-profit attacks with cooperating peers who may or not be aware of participating in an attack, see Section 7.9.
26. There is some sort of intuitive understanding in the bitcoin community that the Longest Chain Rule solves all problems in this space, and there is simply no problem of this sort, and if there is, people naively believe that it is not very serious. In other terms nobody wants to admit that the brilliant creator(s) of bitcoin could have created a system which has serious security problems.
27. For example many authors claim that the problem has already been fixed: and that the fix is to wait for 6 confirmations, cf. [59]. More generally it is frequently claimed that the probability of reverting a transaction in a block decreases exponentially with the number of blocks t mined on the top of the current block cf. [56]. In fact if a lot of money is at stake in a large transaction (or in many small transactions) it is possible to see that a larger attack could be mounted. According to [50] core developers require 120 blocks (about 1 day¹⁹) before they consider the network sufficiently protected from the potential of a longer attack-chain. In general as the money at stake involved in each block is likely to grow in the future, the risk will also increase²⁰ and

¹⁹ So it is in fact faster to take a plane to Switzerland, withdraw money from a bank, and travel back, than to use bitcoins to withdraw larger sums of money, cf. [38, 21].

²⁰ Later we are going to see that 51 % attacks will get worse with time due to the build-in monetary policy in bitcoin (money at risk grows in comparison to the cost

we believe that "no amount of confirmations" can fix such problems, citing [14]. See also [6] and Section 6.

Overall we see that 51 % attacks are a huge problem and cannot be easily dismissed.

6.2 The Basic Attack

Our basic attack is self-explanatory, some attacker produces a fork in order to cancel some transaction[s] by producing a longer chain in a fixed interval of time, see Fig. 10 below.

The attack clearly can be profitable. The question of actual feasibility of this attack is a complex one, it depends on many factors and we will amply study this and related questions later throughout in this paper.

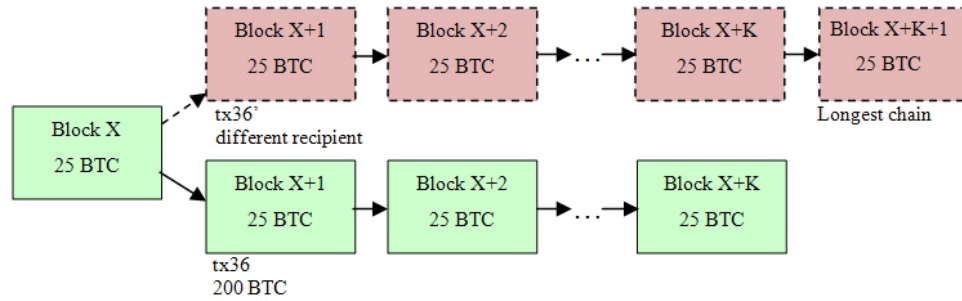


Fig. 10. A simple method to commit double spending. The attacker tries to produce the second chain of blocks in order to modify the recipient of some large transaction(s) he has generated himself. Arguably and under the right conditions, this can be quite easy to achieve. The attack is clearly profitable and the only problem is **the timing**. To produce these blocks on time requires one to temporarily "command" very substantial computing power such for example 51 % of the current capacity or higher. It is totally incorrect to believe that this requires the attacker to be very powerful such as owning 51 % of the bitcoin hash power [56]. This needs only to be done only for a very short time, like less than 1 hour, for example through redirection (man-in-the-middle attack) of hash power which is in the physical possession of other miners but under "logical" control of extremely few pool manager servers.

In the following sections we are going to analyse the risks which result from this and similar attacks.

6.3 Large vs. Smaller Transactions

Our attack does NOT limit to defraud people who would accept a single large payment in exchange of goods or another quantity of a virtual currency (mixing

of attack) and moreover there will be sudden transitions because the monetary policy mandates sudden jumps in the miner reward (cf. also Part 3 in [23]).

services, exchanges, some sorts of shares). The attacker (for example a bitcoin exchange or a bitcoin lottery) can in the same way issue a large number of smaller transactions and cancel all of them simultaneously in the same way and at exactly the same cost.

6.4 Feasibility Discussion

The attacker does NOT need to be very powerful, on the contrary. The most shocking discovery is that **anyone** can commit such fraud and steal money. They just need to rent some hashing power from a cloud hashing provider. Bitcoin software does not know a notion of a double spending attack and if it occurs possibly nobody would notice: only transactions in the official dominating branch of the blockchain are recorded in the current bitcoin network, cf. [32]. It may also be difficult to claim that something wrong happened: one may consider that this is how bitcoin works and the attacker has not done anything wrong.

In a competitive market they do not need to pay a lot for this. Not much more than 25 BTC per block (this is because miners do not mine at a loss, the inherent cost of mining per block should be less than 25 BTC). The attacker just needs to temporarily displace the hashing power from other crypto currencies for a very short period of time which is easy to achieve by paying a small premium over the market price.

There is another very serious possibility, that the spare hash power could also be obtained from older miner devices which have been switched off because they are no longer profitable (or a combination of old and new devices). However they may be profitable for criminals able to generate an additional income from attacks. Given the fact that the hash rate increases steadily, cf. Fig. 3, it is quite possible to imagine that the hash power which has been switched off is very substantial and comparable in size to the active hash power.

How to Achieve 500 % or More

There is yet another way to execute such attacks: to offer a large number of miners a small incentive (as a premium over the market price) to go mine for another crypto currency, **before** the attack begins. This can lead to massive displacement of hash power before the attack starts. Then at the moment when block $X+1$ is mined following the notations of Fig. 10, the double spending attack costs less. The hash rate goes down dramatically at the very beginning of the attack, and raises back again. In this way it is possible also to achieve 500 % hash power or more. More precisely the attacker can for example re-do this block $X + 1$, and potentially few more blocks with hash power which could be literally 500 % compared to the (reduced) hash power with which first block $X + 1$ was initially mined. Now the attacker is going to modify the recipients of one or many transactions included in this block to cancel his own transactions²¹.

Further advanced attacks scenarios with malicious pool managers and which can easily be combined with this preliminary displacement of hash power are proposed and studied in Section 8.2.

²¹ He can also cancel transactions of many other people with double spending as a service bitundo.com, see Section 7.9

6.5 The Question of Dominance

It is important to understand that what we present in Fig. 10 is already feasible to execute today for nearly anyone, not only for rich and powerful attackers. Then as we advance in time, such attacks are expected to become easier.

At this moment bitcoin is a dominating crypto currency: its hash power is substantially larger than for other crypto currencies combined. It appears that bitcoin could claim to be a sort of natural monopoly: it is able to monopolize the market and its competitors find it hard to compete.

Now the attack will become particularly easy when bitcoin ceases to be a dominant crypto currency. At this moment the attacker needs for example to hack some (very few) pool manager servers in order to execute the attack. But when there is plenty of hash power available to rent outside of bitcoin, the attacker will be able to execute the attack without doing anything illegal (except possible legal consequences of canceling some bitcoin transactions). At this moment it is quite easy to execute double spending attacks on many existing crypto currencies cf. for example Section 10 and 11. For example in April 2014 one single miner owned 51 % of the hash rate of Dogecoin.

In this respect things are expected to considerably change in the future for bitcoin. We do not expect bitcoin to remain dominant forever. Here is why! Unhappily due to the cost of adopting bitcoin as a currency (the necessity to purchase bitcoins which have already been mined at a high price) one cannot prevent users from creating their own crypto currency (cf. Section 5.6 and [10]). Gold does not give people and major countries any choice: some countries have gold mines or gold reserves, others don't. Digital currencies put all the countries and all the people at an equal footing. There will be always a large percentage of the population which will not be happy about the distribution of wealth and will try to promote a new crypto currency which gives (new) investors a better chance than having to buy coins already mined by other people.

The fact that bitcoin is expected to lose its dominant position is also due to another factor, built-in decreasing returns for miners and the predicted consequences of this fact, see Section 5. At the same as miner rewards decreases substantially with time, the money at risk increases (compared to the cost of mining a new block).

Phase Transitions. All these factor combined, we expect that most crypto currencies will undergo “destructive” transitions from a secure state to an insecure state. For many crypto currencies all these things are already happening, see Section 10 and 11. The question whether it can also happen to bitcoin and what might be further consequences of it is further studied in Section 12.

7 Alternative Solutions For Double Spending

Note: this section is work in progress. Not everything can be covered inside this paper and many questions are really not obvious. We thank all the authors of very valuable comments on early versions of this paper posted at bitcointalk.org. We plan to develop these questions further and publish another paper on this topic.

In this paper we heavily criticize the longest chain rule of Satoshi Nakamoto. A single rule which offers apparent elegance and simplicity and regulates two things at one time. It is responsible for deciding which freshly mined blocks are “accepted” and obtain monetary reward and at the same for deciding which transactions are finally accepted and are part of the official common history of bitcoin. However as we have already explained in Section 4.2, it is problematic to solve both problems with one single “blunt” rule, **there is NO REASON why the same mechanism should govern both areas**. It should be possible to design better mechanisms in bitcoin and other digital currencies, this NOT in order to replace the blockchain by another solution, but as a complement, in order to improve the security and the speed of transactions.

7.1 Our Objectives

Our primary goal is to design and build **Fast Consensus Mechanisms** for bitcoin transactions. We approach the problem from a conservative angle: we do not think it is realistic un bitcoin to try to change the speed at which blocks are mined. We want to improve bitcoin in such a way that payments can be accepted much faster than the speed of mining the next block.

Desired Characteristics

Let us examine what kind of solutions would be desirable.

1. Order and timing of transactions should matter and should be hard to modify (protection against malicious manipulation in the timing and network propagation of transactions).
2. The solutions should be incremental and should NOT destroy the existing order in the bitcoin network. They should offer some benefits even if not every network participant adopts them initially. They should not require a permission of everybody in the bitcoin network.
3. Earlier transactions should be preferred and as time goes by it should be increasingly difficult to emit a second (double spending) transaction.
4. Instead of instability and all or nothing behavior where large number of transactions could be put into question, we should get stability and convergence.
5. Relying parties should get increasing probabilistic certitude that the transaction is final as times goes by, second after second.
They should also be able to get obtain some tangible evidence in form of network events which are difficult to forge, which allows them to evaluate their risks.

6. Unique transactions which spend some quantity[ies] of money in bitcoin should be always accepted with very large probability.
7. Double spending transactions should simply be resolved on the (objective) basis of earlier transaction, if one transaction is much earlier than the other.
8. Only in rare cases where competing transactions are emitted within a certain time frame there could be an ambiguity about which transaction will be accepted. We should also ask the question that maybe no transaction should be accepted in this case, as it would show that either the payer is trying to cheat or his private key has been compromised.
9. In particular though it is possible and does not cost a lot to rewrite bitcoin history in terms of which blocks get the reward, it should be somewhat **STRICTLY HARDER** and/or cost more (the exact criteria to be determined) to rewrite bitcoin history in terms of who is the recipient of moneys.
10. **Network neutrality:** the criteria to decide which blocks are approved should be as objective as possible. Even though miners can produce competing blocks and no one can decide which block obtains the reward later, incentives in place should be such that all blocks are likely to include the same transactions.
11. Ordinary peer-to-peer network nodes and ordinary people who use bitcoin for payments and peers should be empowered by the new solutions. We need a self-defence mechanism against potentially abusive behavior of miners.
12. A decentralized solution should mean more than one solution could be used and running concurrently. Solutions should be designed in such a way as to cooperate and not conflict with other similar solutions.
13. Fast zero confirmation transactions should be encouraged cf. [18] and risks of accepting them should be reduced.
In order to achieve this we propose that some small cash premiums would be offered by volunteers who want their transactions to be certified or re-confirmed by others and accepted faster. These mechanisms should be decentralized and several methods for doing this could be tried. These certification and re-confirmation events can and should be chained.
14. The solution should incentivize ordinary network nodes²² and miners²³ to be active network nodes and help improving the security of the network²³. The cash premiums discussed above could be used precisely here.
15. (Optional) In addition the solution could incentivize ordinary network nodes to spend money (use bitcoins and pay transaction fees) through cash premiums. This is in order to promote the adoption of bitcoin as a currency which

²² The current bitcoin community has let down very badly ordinary people who support the network at considerable expense in terms of CPU, network and energy usage, online availability, excessive hard drive space usage, etc. A network which benefits primarily a restricted cartel of miners was probably not exactly the intention of Satoshi Nakamoto who has clearly postulated that each network node should be mining cf. Section 5 of [56]. See also next footnote below²³.

²³ Moreover pooled mining makes that miners do NOT even need to be there support the network as full network nodes. Recently there were alarming reports about the number of full bitcoin network nodes dropping to dangerously low levels, cf. [16].

is not doing well, cf. Fig. 6 in a very similar way in which some credit card companies offer bounties and rewards.

16. Holders of balances in bitcoins and especially those who do some efforts to manage their security (private keys) correctly should also be encouraged to participate in supporting the network: they should be able to generate some additional income.
17. Confirmations should be chained and the mechanisms should be designed in such a way that the attacker in order to commit double spending needs to corrupt several entities not known in advance.
18. (Optional) Miners could be asked to apply certain rules regarding on how exactly they order their transactions in their Merkle trees. This in order to provide evidence about the timing of transactions received by given network nodes.
19. (Optional) There could also be some protection against spam or DOS attacks: it should be difficult to jam the P2P network with too many transactions.
20. Double spending attacks should be visible and monitored.
21. People who deliberately execute attacks on the bitcoin network or help others execute such attacks should NOT be rewarded cf. Section 7.9.

How exactly this can be done is not totally obvious, however it appears that bitcoin does not really provide an optimal solution and we need to propose something better. We are not going to claim to provide the ultimate solution. This is expected to be a solution slightly better than status quo, subject to further improvement and detailed tuning to adapt it to the realities of bitcoin.

Decentralized Consensus: Historical Background and Related Research

It is clear that our problem has potentially many solutions. However, do these solutions work well? Are they secure? This is closely related to the well-known 1982 Byzantine Generals problem²⁴ in computer science [49].

7.2 Proposed Solutions

It is surprising to discover that **Satoshi did NOT introduce a transaction timestamp** in bitcoin software. It is NOT known WHY neither the original creator of bitcoin nor later bitcoin developers did not mandate one. This could be seen as an expression of **misplaced ideology**. Giving an impression showing that maybe the Longest Chain Rule does solve all the problems in an appropriate way. Unhappily it doesn't²⁵.

²⁴ In theory this problem is already partly solved in bitcoin by Satoshi bitcoin mining process and Longest Chain Rule, however in practice this is very slow and unstable. Therefore the problem needs to be solved again on a more practical level.

²⁵ Or at least in the current bitcoin and many other current crypto currencies it doesn't, they are permanently vulnerable to double spending attacks and transactions are slow.

Currently only an approximate timing of transactions is known in the bitcoin network, it comes from the number of block in which a given transaction is included: this gives a precision of approx. 10 minutes. Transactions without a fee could be much older than the block. However all blocks are broadcast on the network and it is very easy for the bitcoin software to obtain more precise timing of transactions with a precision of 1 second, maybe better. A number of web sites such as `blockchain.info` are already doing this: they publish timestamps for all bitcoin transactions which correspond to the earliest moment at which these transactions have been seen.

A preliminary remark is that in the current bitcoin system, each quantity of bitcoins such as created or attributed to a certain public key by some previous transaction, can be used only once. There should be at most one digital signature which transfers this quantity to another set of public keys (there can be multiple recipients for each transaction). Two distinct signatures indicate double spending²⁶.

The 20 Second Solution. We sketch a solution to our problem:

1. First of all, all signatures should be converted to some sort of normal form to avoid identical signatures which look different, for example in ECDSA if r, s is a valid signature $r, -s$ is also valid. Also all large integers should be converted to a standard 256-bit integer format in the interval $0, \dots, q - 1$ where q is the order of the elliptic curve group used in bitcoin²⁷.
2. In case of double spending if the second event is older than say 20 seconds after the first transaction, the first transaction will simply be considered as valid and the second as invalid.

It should be based on the earliest timestamp in existence which proves that one transaction was in existence earlier. This seems reasonable knowing that the median time until a node receives a block is 6.5 seconds cf. [30, 31]. The exact implementation of such a mechanism will be studied later²⁸.

This type of solutions have been studied for some time, cf. [21] from 2011 which is not identical than our proposal²⁸ and more recently in Ripple²⁹. However these (older and more recent) solutions are rather expected to work on the basis of order in which transactions are received rather than some timestamps (privileged in this paper).

²⁶ Things get more complicated with transactions which contain multiple signatures. Moreover there are transaction malleability attacks and signatures themselves can also be easily modified to appear as another distinct signature, cf. [32]

²⁷ In contrast current bitcoin network data is full of incorrectly formatted signatures, for example due to the presence of unnecessary leading zeros.

²⁸ See Section 7.6 sub-point 3 for a further discussion and additional variants/enhancements.

²⁹ In September Ripple has presented a specific detailed solution called Ripple Protocol consensus algorithm (RPCA) in which the first transaction will be confirmed during a voting process which takes a few rounds and is claimed to reach consensus in a matter of seconds [45] and such that everybody is expected to reach the same decision, cf. [64]. As in our 20 second solution, in this process a second (later) transaction will simply be rejected cf. [64].

3. In case of double spending if both events come within at most 20 seconds of each other, we propose that miners should NOT include any of these transactions in block they mine³⁰. It would also be possible to accept just any one of these two transactions as proposed in [29]. It remains an open problem what is the best decision in this case, cf. also [21].
4. We propose the following mechanism to facilitate zero confirmation transactions. Transactions should pay a small donation to a public key of volunteers in the bitcoin network which should be ordinary full network nodes which accept connections and advertise this additional software capability. This in order to incentivize more people to run network nodes, see [16] which people should work on very low latency and immediately spend their attributions few seconds later (or faster!). We call these network nodes **transaction confirmer** peers. They are going to confirm the transactions by spending their input immediately, and at the same time facilitate the diffusion of information about these transactions in the network.
These confirmations should and will be **chained**: confirmation transactions will be themselves confirmed in other transactions for a fee paid from the initial fee. Confirmation transaction should spend simultaneously several incoming fees from previous transactions in order to link them together.
5. (Optional) We also propose to re-use “shares” which are already computed by miners in vast quantities or select only certain shares with a sufficient number of zeros. These can also be used to confirm that transactions are already in existence at a certain moment. For these shares we can in addition mandate that if transactions are hashed in a certain order in a Merkle hash tree, it means that this miner have seen certain transactions earlier.

In other terms a mined block could be considered as invalid if it only includes one transaction while two were already in existence say 20 seconds before it was produced AND if these transactions were close in time. If one was much earlier, it could be included. Again this decision on whether to include or not a given transaction could be decentralized and requires some form of [secure or not] timestamping and should be complemented by various forms of attestation by peers which allows for better security against manipulation of these timestamps.

A big question is whether timestamps are needed at all, see Section 7.7. An alternative to timestamps could be various pure consensus mechanisms without timestamps by which numerous network nodes would certify that they have seen one transaction earlier than another transaction. In this paper we take the view that timestamps should be present by default and further confirmed by (the same) sorts of additional mechanisms.

Remark: This solution is not an urgent need for larger crypto currencies which enjoy a dominant position and command a lot of hash power. They can probably survive for years without it. It is however **vital** for all small crypto

³⁰ If we mandate this we would also need rules to handle additional third fourth etc. spending transactions issued later. One way to solve would to forget older attempts after some very long time such as 1 month and then eventually accept only proper single spends.

currencies which are more vulnerable and subject to risk of very rapid self-destruction if it is not applied, as shown in this paper.

7.3 More Details On TimeStamps

The exact implementation of timestamping is not obvious. Initially it could be left to the free market, some timestamping is better than no timestamping at all which is the current situation. Several mechanisms could function simultaneously. For example one can immediately use timestamps published by `blockchain.info` and later (simultaneously) use more secure timestamp solutions from other sources.

For solutions which would prevent for-profit manipulation of timestamps we need to propose additional mechanisms, such as secure bitstamps or additional distributed consensus mechanisms. We have already proposed two solutions to this problem in points 4) and 5) in the previous section. Below we discuss these 'peer/miner confirmation' solutions in more detail. We plan to develop all these questions in another paper.

7.4 More Details On The [Multiple Chained] Peer Transaction Re-Confirmation Mechanism

We recall that some network nodes are going to become **transaction confirmer peers**. They are going to confirm the transactions by spending their input immediately. These confirmations will be chained as already explained. It is important to remark that current bitcoin DOES allow transaction outputs to be spent immediately without any delay (0 seconds delay) in the next transaction which can be included directly in the same block, cf. [74].

The main idea is not that the **transaction confirmer peers** do NOT have to be entities working for profit which would advertise and sell their services. It could rather be ordinary network nodes. They should just run the right version of ordinary Satoshi full network node software which implements the additional mechanisms and should ensure a high level availability and reactivity to the network events. All bitcoin users which have decent PCs or other devices which are always connected and always on should be invited to participate. We do NOT need a reputation mechanism, it will be easy to check in the blockchain and evaluate their past reliability, speed and capacity to reach many other network nodes for these services.

For these transactions we postulate that there should be a standard fee C_f per confirmation fixed by a certain market mechanism (like a majority vote). Nodes could compete in terms of the confirmation speed however it is more important that we have large list of peers which work reasonably well. We postulate that in order to increase randomness in the choice of peers the fee should be fixed in most cases (so that many peers will appear as exactly equivalent choices). A standard practice should be to send a multiple $K \cdot C_f$ of this fee to TWO transaction confirmer peers, these peers are expected to immediately send the amount of $(K - 1) \cdot C_f$ to two other transaction confirmer peers, which two peers

should be chosen in a deterministic pseudo-random way using a hash function from a public list of confirmer peers active in the recently mined 2016 blocks.

Remark. It is illusory to make the fees depend on the amounts of money hold by the private keys participating in confirmations and claim that nodes which hold larger amounts can be trusted. This is because network nodes could agree to participate in the attacks as a service without revealing their private keys and without putting their money at risk. A standard fee is the way to go.

7.5 More Details On How To Use Shares Generated By Miners

In typical pooled mining miners produce shares in which H2 starts with say 42 zeros [25, 23] and send them to the pool managers in vast quantities in order to prove that they have done the work for which they should be paid. For example if the current difficulty is such that H2 must starts with 66 zeros, which is very close to what we had recently, a staggering number of 2^{24} shares are generated every 10 minutes.

We propose that only shares with at least 48 zeros should be used as evidence in the bitcoin network. This gives roughly 2^{16} events every 10 minutes, or one event every 10 miliseconds on average. This probably gives sufficient precision for certifying the timing of transactions in bitcoin network (even though one cannot force miners to disclose these events, and a large percentage of these events might be lost). We say at least 48 zeros, as it is more or less clear that miner pools will in the future increase the difficulty of shares and they will have more than 48 zeros, giving less that 2^{16} events every 10 minutes³¹.

Our key proposal is that network nodes which are **transaction confirmer** peers can publish these data in order to make more peers use them which will increase their expected income. This should encourage miners to also participate in the peer network and to publish these shares, which just by the fact of becoming public will improve the security of zero confirmation transactions in the bitcoin network.

Disclaimer. It is however important to understand that individually such events are relatively inexpensive to produce. The idea is that many such events produced by different miners will be used, combining the concepts of proof of stake and proof of work. These events will be chained for extra security. Moreover some of these events will achieve substantially smaller values of H2, with 49, 50 and more zeros. Such events will be more valuable.

7.6 Enhancements and Limitations

What we describe above is NOT yet a full solution. It requires further work to specify and analyse if it does the job reasonably well and if it does not lead to new attacks. We also need to consider a number of enhancements and improvements.

Below we list some ideas.

³¹ If this happens it will be a sign of further very dangerous centralization of mining, and unhappily the robustness of our solutions against attacks will decrease, however some security will remain.

1. Probably we need to require more than a timestamp for all bitcoin transactions. We could also require timestamps for all individual signatures. A digital signature gives security guarantees which answer two questions: Who? (signs) and What? (is signed). A digital signature which includes a timestamp also answers the question When? (the transaction was authorized).
2. It is NOT correct to believe that miners have no other choice than to rely on the current bitcoin network where the median time until a node receives a block is 6.5 seconds whereas the average time is 12.6 seconds, etc. cf. [30, 31]. This is like the "zero-fee propagation", it costs nothing.
Miners could actually - because they work for profit - PAY a tiny little bit of money to have access to a much faster and more accurate data about all transactions, super-fast latency data based on a set of some 1000 randomly chosen full network nodes which are connected to a faster 'backbone' network. Then it is easy to imagine and easy that miners have access to all transactions within milliseconds rather than seconds. Such additional network could be run by business providers or as a cooperative belonging to miners themselves and could also provide double-spending alerts automatically.
3. The following enhancement to our solution was proposed by user joe, see <https://bitcointalk.org/index.php?topic=3441.msg48484#msg48484>, which post goes back to February 2011, part of a discussion thread on fast transaction acceptance [29], cf. also [21]. The author proposes exactly the same solution as our points 2) and 3) in Section 7.2 with the same 20 s threshold, with additional rules regarding rejecting blocks which include (later) transaction2 out of two, a transaction which should normally not be accepted if there was another earlier transaction1 which was in existence more than 20 s before.

Normally blocks which contain transaction2 should be rejected by miners, except if they already have 6 confirmations or more, in which case they should be nevertheless accepted. This is claimed to avoid permanent block forks³² which rule however is somewhat problematic, the attack can eventually succeed³².

Limitations: A major factor which is expected to affect the development and adoption of solutions to our problem is the size of the blockchain in bitcoin which

³² The author does not explain what exactly is the threat, so we have invented our own scenario to illustrate this point. Imagine that the Chinese government firewall is abused in a very subtle way by a disgruntled government employee, so that nobody notices but certain bitcoin transactions never make it to China for 1 hour, some packets are dropped by the IP network. Chinese miners might already have 51 % (because it is a big country), and simply do never receive earlier transaction1, so in good faith they include later transaction2 in a block, it becomes official history of bitcoin in China. Now these blocks mined in China are not recognized by people outside China because they contain an invalid transaction2, so people outside China mine only on their chain, and maybe always have a shorter chain because they have 49 %. Thus 49 % of hash power is permanently wasted. This is why after 6 confirmations miners could join the non-orthodox branch. However this means that the attacker has succeeded.

is stored at every full network node and takes about 20 gigabytes, which is one of the reasons why the number of people who support the current bitcoin network has been falling dramatically cf. [16]. This is however also an opportunity to recruit additional people to work for the bitcoin P2P network which is already a part of our proposed solution.

7.7 Timestamps - Controversy And Discussion

In this paper we sketch one possible solution, not every possible solution to instability of bitcoin and its poor ability to defend users against double spending attacks. Timestamping is one of the key elements in this solution. This comes as a shock to many people who get used to consider that bitcoin is a neat system and nothing could possibly be wrong with it. However the role of academic research is not to assume that by default bitcoin is perfect, and to challenge even what is considered as an obvious and well-established truth. Using timestamps is a disturbing proposition, it is somewhat contrary to a certain idea of what bitcoin should be^{33 34}, and not everybody agrees.

Few days after this paper was released, on 08 May 2014, the following comment was posted on a bitcoin forum, cf. [28]. It was written by Gerald Davis, also known as the user *DeathAndTaxes*, a highly respected and very frequent contributor to this bitcoin forum, responsible for some 14,000 posts. Here is what he writes about this paper. This is really his first reaction (which was later expanded).

”Utter nonsense.

It is sad that they wrote a paper based on the premise that timestamps can be used to solve the double spend problem (they can’t)”

In other terms the author claims that maybe timestamps do not help to solve this problem, on the contrary. It seems that this paper has created a genuine controversy. Are timestamps really needed? Are they actually useful?

Timestamps as a Quick Fix. We do not have a strong opinion whether timestamps are absolutely necessary in the case of an ideal crypto currency. Potentially additional built-in consensus mechanisms which depend on the network propagation of different transactions, could achieve a similar effect as already explained earlier. However we claim that:

1. current bitcoin has very **slow** confirmation, which is bad for its adoption,
2. we need to **add some low latency mechanisms** to the current bitcoin,
3. **the order and timing of transactions SHOULD matter** and it should somewhat be used in order to decide which transactions are accepted,

³³ A self-governing asynchronous system in which “the invisible hand” of brute hash power makes all the important decisions. Unhappily this is very slow in current bitcoin network and leads to further instability with blockchain forking attacks.

³⁴ For example timing information certainly provides some additional information which goes against improving the anonymity of transactions. However anonymity is not really a strong point of bitcoin.

4. fast zero-confirmation transactions should be **encouraged**, not discouraged,
5. double spending attacks should be made **increasingly difficult with time**, after the initial transaction was broadcast in the peer-to-peer network.

One of the methods to achieve this (but probably not the only one) is to use timestamps. It is difficult to redesign the whole of bitcoin, make it substantially faster and more secure, produce more than 1 block every 10 minutes, and convince everybody to upgrade. The current method is proposed mostly as a quick-fix for a crypto currency such as bitcoin which is as it is: slow at approving transactions, especially for large transactions [38, 21]. We are trying to develop some proposals for the future of bitcoin digital currency which would improve it (even slightly) which would fix some of the current problems and such that they would not be too complicated to adopt.

Are Timestamps Really Necessary? In the same Internet forum [28] Davis writes: “Satoshi did not include tx timestamps because proving timestamps in a decentralized environment is an incredibly difficult (some would say impossible) task” and later “Satoshi understood that timestamps are very difficult to authenticate [and] as such limited them to areas where there is no solution which doesn’t involve timestamps.”

In the same Internet forum user *telepatheic* writes: “Satoshi didn’t put much thought into the problem of time stamping, although he realised timekeeping was important”. We learn that Satoshi has written the following comment inside the code: “Never go to sea with two chronometers; take one or three.” Another user *jonald_fyookball* explains that: “we need time stamps for the difficulty change”.

This is very interesting. Satoshi DID mandate timestamps in blocks, even though knowing their exact values are of secondary importance³⁵ and they do not play yet a very important role in bitcoin. These timestamps are already “certified” by the blockchain which unhappily is a very slow process.

It probably is a difficult task to obtain additional (higher resolution) timestamps which could be trusted. However it is **needed**. We hypothesize that additional timestamps with a certain level of security will always be better than no stamps at all. We observe that without additional timestamps, there is no way to distinguish between:

1. double spending events which could be rejected on a purely conventional basis in any reasonably fast network: if one transaction is broadcast many minutes later, it could just be rejected without any justification, and the first transaction could still be accepted;
2. double spending events which occur quasi-simultaneously, in which case both transactions could in turn be rejected on a purely conventional basis, if miners accept to reject³⁶ such transactions, based on the idea that the signing key has been misused AND this fact is already known at an early stage.

³⁵ They are apparently needed in bitcoin in order to prevent miners from manipulating the difficulty level in bitcoin, see <https://bitcointalk.org/index.php?topic=600436.msg6622244#msg6622244>

³⁶ Alternatively in this second case, also by convention, one transaction could be accepted, we do not recommend this variant.

This distinction is crucial in order to:

1. substantially **improve the transaction speed** in the bitcoin network,
2. achieve **better network neutrality** in bitcoin. Being able to decide in a short time which transactions should be approved by miners in a short time and in a more objective and transparent way.
3. We want to have a method less prone to discretionary decisions taken by miners regarding which of the two transactions is accepted ³⁷.
4. On the contrary, we want to increase the role played by ordinary peers which post transactions in the network. Nodes need to be encouraged to stay connected and active, or bitcoin is going to disappear, cf. [16].

To summarize, timestamps should be highly recommended. In the same bitcoin forum another senior member Cryddit writes:

”we don’t really have a practical distributed-timestamp scheme. But there may be a simpler one [...] (not requiring a distributed timestamp) that works. [...] it’s certainly in the best interests of honest miners and honest transaction makers to provide accurate timestamps if it improves security against dishonest ones”

Could Timestamps Be Hacked? This is a serious and valid question which requires more work. In the same Internet forum [28] Davis writes: “So the decentralized currency is based on the timestamps as decided by some centralized ”super peers”. If I bribe the timestamp servers to say my tx is older then I can double spend without even using hashing power.”. And then he goes into an argument to the effect that the only way to actually solve it would be to... reinvent bitcoin and the blockchain. This is very interesting:

1. We must reinvent bitcoin every day. It is not perfect.
2. We really need to avoid this situation: where the proposed modification would **help** to double spent without using hash power (or at a lower cost). It should be at least as hard as previously to double spend, and it should be rather strictly harder.

Even if some timestamping authority certifies that my freshly created transaction tx2 is very old and it should be accepted as older, other network participants are NOT forced to believe this authority. They will observe that they have received tx1 much earlier and they will either certify tx1 by various existing means and include it in Merkle trees.

This is a serious question which requires further research. The risk is then that they might decide to exclude both transactions (given the evidence of key misuse). Then tx2 will work as a denial of service attack on tx1 but then this is NOT double spending. In principle tx2 should not make tx1 rejected by miners.

³⁷ Which is currently the case and leads to greater risk of for-profit blockchain manipulation.

3. Double spending without using hash power is prevented because the attacker needs to know many private keys used in previous history of bitcoin and the sum of the balances hold at these keys provides evidence that the attacker does not know the keys (or he could steal the money) however he could corrupt some people without them revealing their keys, just ask them to generate confirmations. So it really is about inability of the attacker to corrupt many peers NOT known in advance, within minutes.
Peers to be corrupted are not known in advance due to the chaining of these confirmations.
4. **Bribing** timestamp authorities increases the cost of double spending attacks which will be executed only if they are profitable. Therefore it will already be a valuable improvement to bitcoin and other crypto currencies.
5. The time is a reality which is far bigger and far **more objective** than the bitcoin blockchain. It should therefore be easier and less costly to develop reasonable and effective solutions for this problem. It should be possible to use any crypto currency other than bitcoin, and re-use many existing Internet services and/or digital notary services to certify events. It is also possible to use shares generated by bitcoin miners as already suggested. We believe that there is plenty of solutions to this problem. We intend to further develop this question in future papers.
6. We **do need** some additional "peers" to help the network. Miners mine in pools and currently miners are not interested in supporting the bitcoin network: the number of active network nodes is falling very badly, cf. [16], and it is much smaller than the number of active miners, cf. Section 2. Bitcoin popularity is in decline cf. Fig. 5 page 7 and transaction activity is in decline cf. Fig. 9 page 9.
7. However we do not need "super peers" or new "privileged" entities. More precisely we do not want new mechanisms to be **centralized**. We have already indicated our preference to decentralized solutions, which however need to be developed and deployed progressively. The real centralization is the current situation where the number of network nodes involved in checking the bitcoin transactions is declining below reasonable levels cf [16]. In addition pooled mining is **super-centralized**, cf. [70] and Table 2 in [25] and we cannot even trust the miners to be honest and not manipulated by others, cf. Section 8.

Remark. Even if timestamps do not solve our problems very well, they still should probably be recommended, as a measure of transparency, accountability, promoting trust and better reputation of bitcoin. They are needed because they give better visibility to various forms of problematic events, as explained above and allow to better distinguish between different situations and better understand the spectrum of actual double-spending events and attacks. Current bitcoin network is basically somewhat tolerant to fraud and it is not trying to make it more visible.

7.8 Peer Voting Solutions and Ripple RPCA

Solutions to our problem of peer confirmation can also be achieved by peer voting. Below we discuss how more generally the double spending is solved by peer voting in the Ripple network.

In September 2014, Ripple have published a white paper in which they explain how this is done. The solution has apparently been already operational for some time. The main objective is to achieve fast consensus in a peer network without expensive (and slow) proof of work. They describe a mechanism called Ripple Protocol Consensus Algorithm (RPCA) such that:

”Each server in the Ripple network is tasked with voting on a new batch of candidate transactions during rounds that take place every few seconds.”

As a result, transactions are expected to be approved ”in a matter of seconds”, cf. [45, 64].

More precisely they specify a precise solution called **Ripple Protocol consensus algorithm (RPCA)** which is such that:

1. Each server maintains a Unique Node List (UNL) for which group he trusts the majority vote of this group (which does NOT require all these nodes to be honest).
2. Each server ”takes all valid transactions it has seen” and ”makes them public” This happens at each round, which take place every few seconds.
3. Then servers vote in many rounds, and only transactions which receive a certain minim percentage of YES are approved.
4. In the last round, 80 % threshold is required.
5. These transactions form a new ”closed-ledger” and it is claimed that under certain conditions ”the last-closed ledger maintained by all nodes in the network will be identical”, cf. [64].
6. Double-spending is prevented because when the first transaction confirmed during this DETERMINISTIC process, ”the second will fail”, and everybody is expected to reach the same decision, cf. [64].

Both the Ripple solution and the spectrum of solutions proposed in this paper ar trying to avoid ”relying on proof-of-work infrastructure” and achieve consensus at a lower cost than currently (with exception of solutions we discuss in Section 7.5).

7.9 The Unthinkable Double Spending as a Service

In the bitcoin community there is already a service `bitundo.com` which is trying to convince miners to help to cancel other people's bitcoin transactions on demand. This is done by including a transaction which is a genuine double spend transaction (sending the same money to a different address). It incentivizes miners to help to undo bitcoin transactions for a certain fee which can improve their mining income. It appears that currently it focuses only on undoing transactions within minutes, before they are included in any block. It is not (or not yet) trying to undo transactions later on: when they are already approved.

This service is highly problematic from the ethical perspective: it can be seen as a method to bribe miners in order to help one to commit a double spending attack. It appears that his service is not illegal and has some legitimate applications. There are certainly people in bitcoin community who think it should be legal and allowed.

An interesting feature of our solution sketched in Section 7.2 is that it automatically makes such attacks very hard, close to impossible. If the second transaction comes later, chances to double spend should be very low. If the two transactions occur quasi-simultaneously, chances are that both would be rejected by the network. Thus it is not necessary to make new laws to defend bitcoin against `bitundo.com`. This is very much in the spirit of bitcoin as a public space which does not require legal protection because it is able to self-regulate and mandate the right sort of protection against threats.

8 Hidden Attacks: How To Abuse Miners

8.1 A Small But Important Technicality

We examine the process of double hashing which is used in bitcoin mining according to [23, 24].

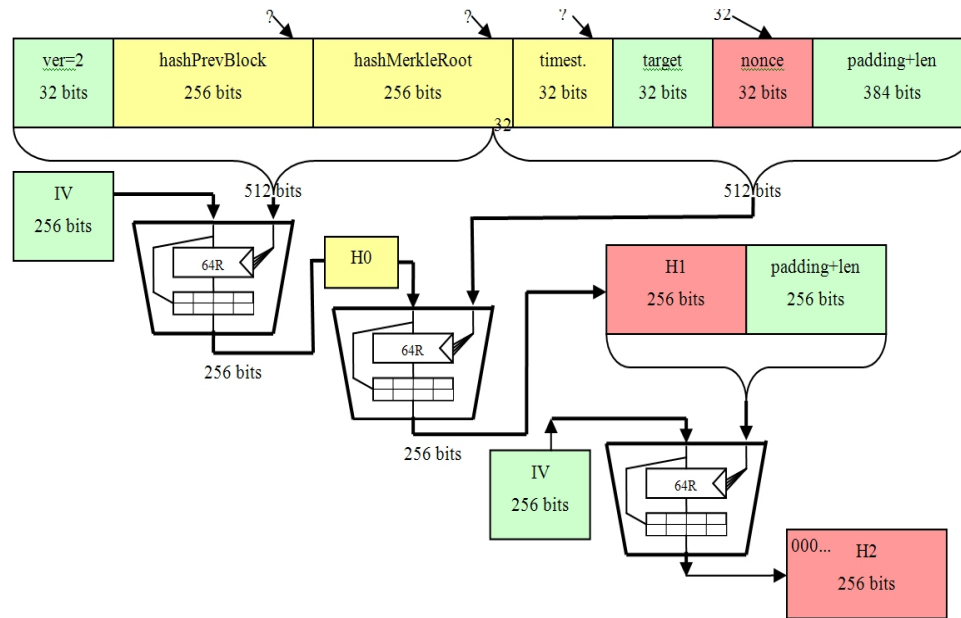


Fig. 11. The process of bitcoin mining according to [23, 24].

One thing jumps to our attention [we thank Lear Bahack for observing this fact independently, though we have observed that many months earlier]. For every `H0`, the miner needs to check many possible nonces. The miners do NOT need to know on which block they are mining; they do NOT need to know the value of `hashPrevBlock` which computation is amortized over many hash operations and the value of `H0` changes very slowly. They only need to know the value `H0` which could be computed for them by the pool manager. Miners can be made to **mine without any precise knowledge about which block they are mining for** or whom they are mining for.

Only an excessively small number of miners, will actually manage to find a winning block: only a very small proportion of say 2^{-41} of all shares found by miners are winning shares. Only these miners might be able to know on which block they have mined by examining the public data in the blockchain, and this is not at all guaranteed. In practice they can see it ONLY if they have also

recorded all hundreds of thousands of shares produced by their miner and sent to the pool manager over the whole weeks and months.

We see that pool managers CAN implement arbitrary subversive strategies, for example accept certain transactions only to overthrow them within less than one hour and accept another transaction with another recipient. **Nobody will notice:** miners will never know that they have been involved in some major attacks against bitcoin such as producing two different versions of the blockchain in order to double spend some large amount of money.

Remark 1. Moreover even those miners who have produced winning blocks and therefore will be made aware of the previous block on which they have been mining, still cannot claim they have participated in some sort of attack. Fork events do happen in the bitcoin network. Only overall higher frequency of fork events mined by one large pool could suggest that some attacks have been executed by that pool, however the pools can execute such attacks just within the limits of the standard deviation³⁸ and never attract any attention.

Remark 2. It is also possible to see that even with the knowledge of all recent transactions from the network and with the knowledge of H0, it is not possible to guess how exactly the Merkle root hash is composed. We are talking about preimage (inversion) attacks starting from H0 aiming at guessing which hashPrevBlock was used to produce this H0. This is because the number of combinations is too large. For example the number of ways to permute the order of 100 transactions is already more than 2^{500} .

8.2 Miner Hidden Abuse Attack Across Currencies

The same attack works **across digital currencies**. Some miners think that they mine bitcoin, while in fact they are made to mine Unobtanium, and vice versa. All this is the discretionary power of the pool manager, this is due to the fact that one can mine only knowing H0 and most of the time no other information is disclosed to miners. In rare cases miners could discover that they found a block for another crypto currency which they have never mined. In practice miners do NOT store vast quantities of H0 values with which they have mined. Miner devices do NOT have enough memory to store them.

8.3 Further Manipulation Scenario With Deflected Responsibility

Our attack can also be made to work in the scenario in which it is not possible for the attacker to corrupt pool managers. It can be run in a different way in which pool managers are going to corrupt themselves and there will be no reason to accuse them of acting with any sort of malicious or criminal intention.

Basically it is possible for an attacker to manipulate the price of a small crypto currency such as Unobtanium to be 10 % MORE profitable than bitcoin mining (typically such currencies are in a sort of equilibrium situation in which the profitability is similar as for bitcoin). Then we can hope that the

³⁸ Standard deviation is excessively large as mining events are quite rare, cf. [25, 70].

pool managers themselves are going to implement code to switch to this crypto currency for a short time (real-time switching mechanism mining for the most profitable currency at the moment). If not, the attackers can themselves release open source code of this sort in order to encourage the adoption of this sort of gain optimization techniques among pool managers. Pool manager can now re-direct 100 % of the hashing power they command to another entity. They are NOT going to tell this to miners and simply pocket the difference, and they will still pay miners in bitcoins. Again, there is in principle no way in which miners could see the difference.

8.4 Has It Already Happened?

In general it is possible to see that if miners use the Stratum protocol, the miner cannot be cheated without being detected and none of the subversive scenarios of this Section 8 could be implemented. Stratum is what the majority of ASIC miners and pools use at this moment: GHash, DiscusFish, Eligius, Bitminter, etc. In the stratum protocol the hash of the previous block is always transmitted in cleartext to the miner. If the miner sniffs the data transmitted (e.g. using Wireshark) and checks against just a few recently mined blocks he will detect if he is made to mine on a different block and if he is participating in an attacks. We have verified in ourselves with the most popular mining pools and found that indeed the hash of the previous block is systematically transmitted³⁹. Therefore one CAN detect the attack: one needs to record incoming packets with method being "mining.notify" and check if the second parameter after "params" is the hash of the last block in the blockchain, cf. our paper on this topic [22]. Unhappily most miners will not do these checks. It requires specialized hardware (a Network Tap) and software (e.g. Wireshark) to sniff network packets. Therefore in practice miners can still be abused.

8.5 Known Attacks which Have Happened

Known attacks are not as sophisticated as what we describe in Section 8.1.

In [9] we find some reports of suspected attacks on a mining pool 50BTC such as "physical unauthorised access to [pool mining] servers" and relay attacks in which a miner formally connects to one pool which communications are redirected to the victim pool with block withholding⁴⁰ and apparently also other attacks, cf. [9].

A major attack with redirection of hash power were reported in August 2014, in this attack the hacker was more powerful than we generally assume in this paper and was able to steal coins of users as a man in the middle cf. [43]. The attacker has hacked some major Internet service providers, and the attack could be prevented by standard network security techniques such as TLS.

³⁹ The miner would not be able to mine if he doesn't know it, except if H0 is transmitted, cf. Section 8.1

⁴⁰ See Sections IX, X.B, XI.A in [25] for a more detailed study and discussion of block withholding attacks.

8.6 Is It Possible to Fix It? - Reactions in the Bitcoin Community

In the following bitcoin forum user Cryddit and senior member of this forum writes:

”The author is right about increasing the security of mining by requiring miners to know both the hash of the current block and the hash of the previous block - the hashing operation they need to do is essentially the same, and making sure miners know what block they’re building on would make certain classes of attack (diverting pool miners to another coin using pool miners to build an unpublished blockchain, etc) [...] leave incontrovertible evidence.

That is a good idea and we should do it.”

Source:

<https://bitcointalk.org/index.php?topic=600436.msg6626004#msg6626004>.

Another post tries to absolve bitcoin developers from any responsibility for the current situation, <https://bitcointalk.org/index.php?topic=600436.msg6657579#msg6657579>.

8.7 Is It Possible to Fix It? - Solutions

There are two main questions to be considered when considering possible solutions to this problem. The first question is detection. Maybe miner software/hardware interface should be modified to display at any moment the hash of the previous block, in order to know on which they are mining and obtain the appropriate evidence. This has is always transmitted and must be known to the miner in order to mine correctly, cf. Fig. 11, Section 8.4 and [22]. Until this is implemented, some miners can detect the attack using specialized hardware (a network Tap) and software (e.g. Wireshark) to sniff network packets and inspect packets which contain ”mining.notify” and check the second parameter after ”params”, see Section 8.4 and [22].

In general the attack of Section 8.1 is a serious security flaw in the Satoshi bitcoin specification. It is therefore impossible to claim that bitcoin cryptography is perfect, cf. [15]. It seems to be an inherent problem due to double hashing, and maybe bitcoin needs to go back to solutions using a single application of a (sufficiently robust) hash function. Our original solution to this problem is the concept of ”plaintext aware hash functions” which is briefly described below.

8.8 Plaintext Aware Hashing

Before we try to define what is a plaintext aware hashing, we are going to explain what it isn’t. A double application of a hash function commits to the plaintext yet it is NOT plaintext aware: from the first hash there is no way to recover the message being hashed.

$$H2 = \text{SHA256}(\text{SHA256}(\text{block header}))$$

In bitcoin we need the opposite to happen: people who contribute hash power to the network should not be abused in order to produce hashes for the attacker which actually for example is currently making them participate in a double spending attack on another currency as explained in Section 8. The miner needs to be certain that he mines honestly (Cf. Section 8) on the top of the current block and also that the Longest Chain Rule is actually applied.

The solution is quite simple. We need to modify Fig. 11 in such a way that the last hash H2 has hashPrevBlock as input (repeated) and that the key expansion function is a combination of a solid pseudo-random function with a dispersed repetition of bits from the input so that we can be confident that in order to compute a valid H2 the miner must know hashPrevBlock.

It remains to develop and standardize a concrete proposal of a plaintext-aware hash function. One simple solution would be to compute

$$H2 = \text{SHA256}(\text{hashPrevBlock} \oplus \text{SHA256}(\text{block header})).$$

This is not backwards compatible.

9 Towards A Theory of Programmed Self-Destruction

In this section we are going to try to combine all the elements which we have studied so far in order to see what is the overall landscape. We can now formulate a certain theory or set of claims about the predicted future of crypto currencies. based on what we learned.

Our main claim is that the combination of four things:

1. the longest chain rule,
2. deflationary monetary policies which heavily limit the production of new coins (with or without sudden jumps in miner reward),
3. poor network neutrality, centralization and related moral hazards
4. and a competitive environment where hash power can shift rapidly from one coin to another,

is a **fatal** combination. It leads to predicted destruction of crypto coins.

On Fig. 12 we summarize again the main premises in our theory and also try to show some additional influencers.

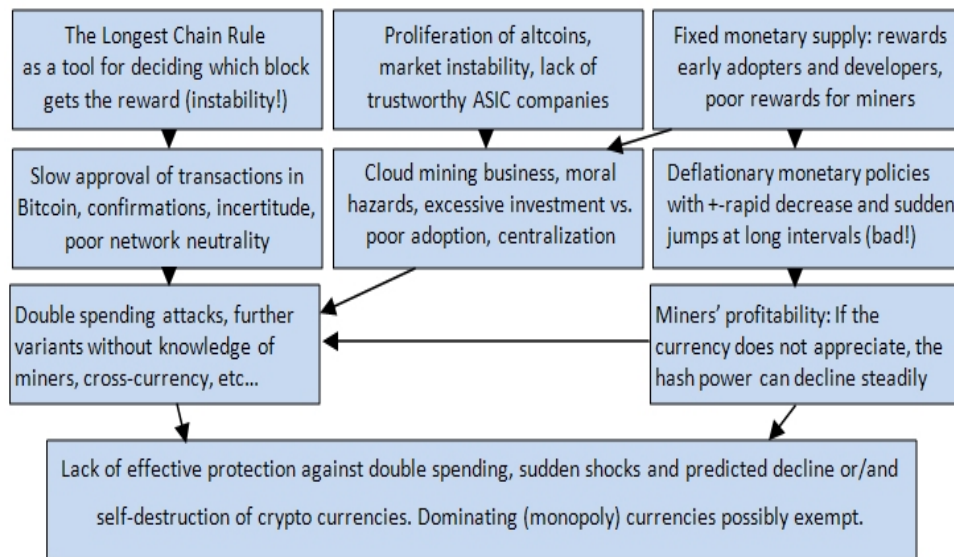


Fig. 12. Theory of programmed self-destruction of crypto currencies: major factors and influencers which are also the main premises of our theory.

The remaining part of the paper will be a study of particular use cases. Does our theory work? Does it allow us to understand the past and and somewhat predict future of various crypto currencies?

10 Case Study: Unobtanium

Unobtanium is a clone of bitcoin which is in operation since October 2013 (cf. unobtanium.io). Unobtanium uses SHA256 and can reuse bitcoin ASICs for mining, and it has a non-negligible value. In March 2014 it was worth some 0.01 BTC which at the current hash speed made Unobtanium mining roughly as profitable as standard bitcoin mining. (note: later in April 2014 the profitability of UNO mining has declined). It is traded at several exchanges. Transactions are substantially faster than bitcoin: blocks are generated and transactions are confirmed once per 1.24 minutes instead of every 10 minutes for bitcoin (it is 1.24 minutes and not 3 minutes as reported incorrectly by many sources). At the first sight this currency seems therefore a quite promising clone of bitcoin and the current market value of all Unobtanium in circulation is roughly about 0.5 million dollars. On the official web page unobtanium.io we read that Unobtanium is expected to be “the cryptocurrency for serious traders” and that “Unobtanium is safe”. At the first sight we see no problem with this currency whatsoever apart from the fact that there are very few actual transactions in the blockchain.

Unobtanium is quite rare: only 250,000 will be ever made, and the production of new currency is halving every 2.88 months which is **incredibly fast**. There are only a few halving periods however, and in September 2014 the miner reward settles forever at a surprisingly small value.

Table 1. The Unobtanium Reward

blocks	approx. dates	UNO/block
1 – 102K	18 Oct 2013-	1
102K – 204K	15 Dec 2013-	0.5
204K – 300K	12 Feb 2014-	0.25
300K – 408K	4 April 2014-	0.125
408K – 510K	1 Jun 2014-	0.0625
510K – 612K	1 Aug 2014-	0.03125
612K –	after 29 Sep 2014	0.0001

Remark added 01102014: These data are now **INACCURATE** (ahead of time). They will be updated later. On 1 Oct 2014 UNO has only mined block 495900 and the UNO clock was ticking slower than expected.

In fact this crypto currency smells **programmed self-destruction**.

10.1 Double or Die

At the moment of writing some 2/3 of all coins were already made. In March 2014 the current price of Unobtanium (UNO) was about 6 USD and we again Unobtanium mining was roughly as profitable as standard bitcoin mining. However because Unobtanium uses **the same SHA256 ASICs** as in bitcoin mining, the computing power (hash power) can shift in both directions instantly. In particular the computing power in Unobtanium currency is NOT growing, it is rather declining.

When the next rewards block halving comes in April, the price of UNO needs to be at 12 USD in order to keep mining equally profitable (cf. later Theorem 11.1 page 58). Then in June it would need to become 24 USD, then in August it would need to become 48 USD. Such rapid appreciation at an exponential rate is unlikely to happen and the hash rate must decline accordingly, until mining becomes profitable.

10.2 The Self-Destruction of Unobtanium

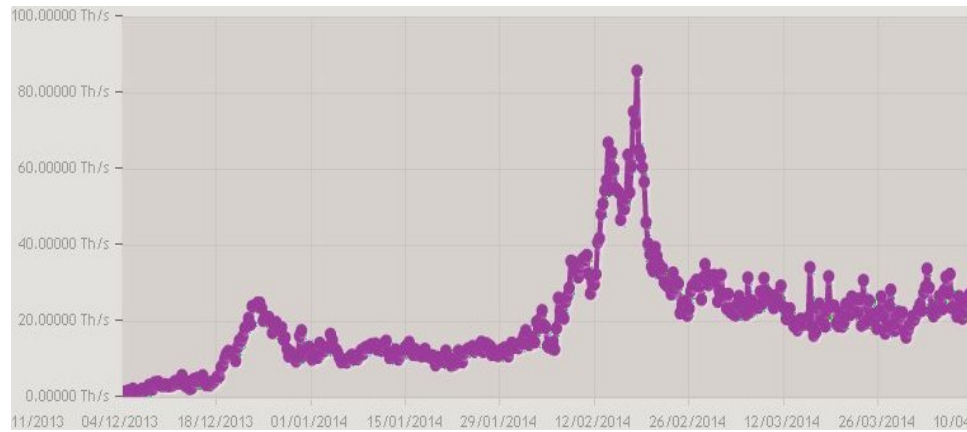


Fig. 13. The growth and decline of UNOBTANIUM hash power in the last few months. we observe sudden (speculative?) jumps and periods of intensive mining followed by steady decline in days following each block halving date (15 Dec and 12 Feb) in the hash power

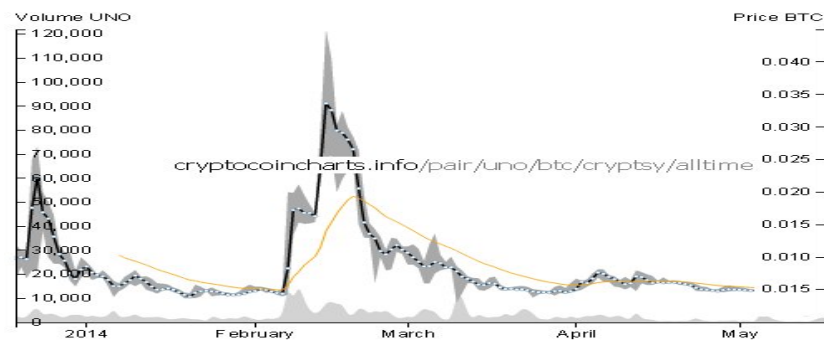


Fig. 14. The UNOBTANIUM market price in the same period of time (grey curve) and volume (yellow) have seen very similar perturbations.

On Fig. 13 we see that miners are already running away from this crypto currency. This happens in sudden slumps as predicted. There is important decline in the hash rate which occurs some a few days after block halving dates after some sort of short period of instability. We see that the process of rapid self-destruction has already started for this crypto currency⁴¹. The market price of UNO has suffered very similar speculative increases followed by a periods of collapse as shown in Fig. 14.

Unobtanium is a crypto currency which is already destroying itself. It is bound to always have very small market cap, which implies small anonymity and small adoption. In bitcoin the decline in mining profitability could be compensated by massive adoption and fees, and miners do not have a better crypto currency to escape to. Here the adoption as a payment instrument is close to zero, fees are zero and miners have very good alternatives to switch to.

⁴¹ We claim that similar periods of decline are hash power are also likely to happen for bitcoin, though not before 2015/2016 see Section 12, and more quickly for Dogecoin, at several moments during 2014, see Section 11.

10.3 A Kill Switch

There is much worse than that. After 29 September 2014 (**predicted date, it is now expected rather to happen in November 2014**) the miner reward is going to be **divided by 312.5 overnight**. Then if we want the mining profitability to be the same as today and the hash rate not to decline, the price of UNO would need to be 15,000 USD each to compensate for that again (or mining will not be profitable and hash power protection will go elsewhere). This would make UNO achieve a market capitalization of about 4 billion dollars from 0.5 million today. Unbelievable 8000x growth in a few months.

Of course it obvious that this is not going to happen. We expect rather that there will be a very fast outflow of hash power at each reward halving (cf. Fig. 13) until we reach again an equilibrium situation where again mining Unobtanium will be as profitable as mining bitcoin. Overall on and before September/November 2014 (exact date is not yet clear, see above) we predict very rapid spectacular collapse in Unobtanium hash power.

At the same time there can be some appreciation of Unobtanium due to their increasing rarity and increased popularity. However this appreciation is unlikely to happen by sudden jumps, and it is obvious that it cannot achieve 100% appreciation every 3 months and 30,000 % appreciation (300 times increase) on one single day in September/November 2014.

10.4 Further Decline?

Our prediction is that the hash power in Unobtanium will **decline to a ridiculously small value** (for example 1000x smaller than today). If we assume (being VERY conservative and optimistic) that Unobtanium miners mine at the same profitability threshold as bitcoin miners, and if UNO pays less miners would switch to bitcoin, following Table 1 in September/November 2014 the hash rate is going to be at most 1250 times lower than the peak of 80,000 TH/s of February 2014. This is at most 70 TH/s. In September/November 2014 anybody should be able to execute a 51 % attack on Unobtanium. For example we can estimate that in order to execute the attack of Section 11.5 based essentially in Fig. 10 which is expected to last only about 5 minutes, the attacker needs to rent 35 TH/s of SHA-256 for about 5 minutes. It is easy to see that this would cost only a few dollars.

A decline in hash power will inevitably lead to several major problems:

- It will become easy to double spend older coins, there will be permanent for-profit criminal activity (cf. also Section 11.5).
Yes in September/November 2014 it will cost only a few dollars to execute a 51 % attack on Unobtanium.
- It will become easy to run a “mining cartel attack” only accept blocks mined by members of a certain group, cf. [25].
- A sudden collapse of this crypto currency will probably occur much earlier, as soon as any of these two starts happening, totally destroying confidence of investors and users in this crypto currency.

Remark. It is clear that Unobtanium is in trouble, and later in April 2014 we observed that the profitability of UNO mining has declined and apparently some miners are artificially sustaining it and accept to mine with lower profitability, probably in a bid to avoid total collapse of this currency. We also observed on 28 April that the official web site for Unobtanium is not even displaying the current hash rate anymore for the second half of April.

11 Another Case Study: Dogecoin vs. Litecoin

In this section we look at two currencies Litecoin (long time established) and Dogecoin (started end of 2013) which are quite comparable ⁴². Both currencies use the same hash function (SCRYPT) and they have historically known comparable hashrates. The hash power can move freely and it is possible to see that throughout most of the recent history of Dogecoin **EACH currency could be used to attack each other with a 51 % attack**. We are going now to show that this “symmetric” situation is changing very rapidly, and we will attempt to predict the future of these currencies.

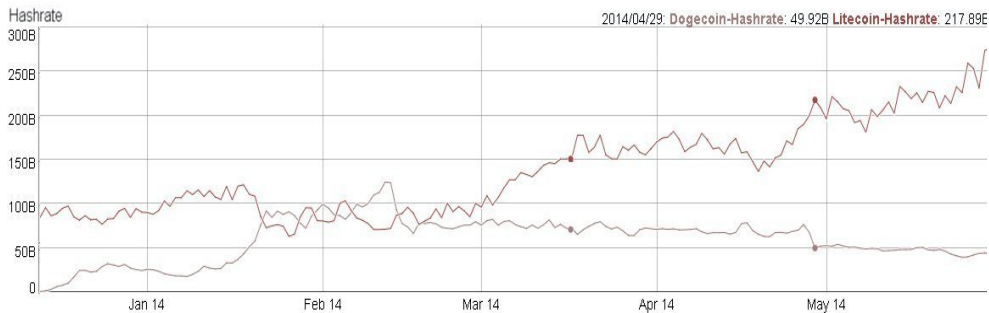


Fig. 15. DOGE hashrate compared to LTC hashrate in the last 6 months

Dogecoin is a newcomer which has challenged the incumbent Litecoin very seriously in terms of achieving a higher hash rate at moments. However the market capitalization of Litecoin remains at least 8 times bigger (300 M USD vs. 37 M USD at the moment of writing). This is because Litecoin has been mined for longer and more people hold some balances in Litecoins.

11.1 Block Halving and Programmed Self-Destruction of Dogecoin

In Litecoin no block halving is planned until 30 August 2015, then the reward is halved, and then the reward remains stable until 2019. Then it has countless block halving events programmed over a period of some 100 years.

In Dogecoin block reward halving events are only very few but they are all planned to occur very soon at the very early stage of existence of Dogecoin in the coming months of 2014. Important events are unfolding before our eyes.

In excessively short time after its creation, Dogecoin has been able to achieve a comparable and even higher hash rate than Litecoin. This has lasted until

⁴² There was a very strong asymmetry between bitcoin and Unobtanium, bitcoin was always many thousands of times larger and it was never able to challenge bitcoin in any way.

March 2014 cf. Fig. 15. On this figure we also observe very strong negative correlation between the two hash rates. When one goes up, the other goes down, the sum is nearly constant at times. We take it as a strong evidence that the hash power has already been shifting in both directions between these two currencies.

Then on 17 March 2014 the reward was halved cf. Fig. 16. At this moment the hashrate in Litecoin has immediately adjusted and switched to another curve, very precisely in days following 17 March 2014, cf. Fig. 15. This ratio has then been quite stable with the hash rate of Dogecoin remaining at or below half of the hash rate of Litecoin.

In this paper we claim that this is strict mathematics. When the reward halves, miners will either see the value of Dogecoin double or a fraction of miners will switch and mine for a competing crypto currency. More precisely miners will be leaving this crypto currency until a new equilibrium is reached: less miners will be there to share the new (decreased) reward and therefore the profitability of their mining operations will be restored. We have the following result:

Theorem 11.1 (Law Of Decreasing Hash Rates). *If the miner reward of crypto currency is decreased 2 times and the market price remains the same and if the price of electricity is relatively low compared to the miner income, the hash rate will be divided by 2 approximately.*

Dogecoin has failed to appreciate 2x in value, therefore the hash rate must decrease 2x.⁴³ We will see this happen again in Fig. 17.

Block numbers	Per-block reward	First block	Expected coins produced (approx)	Expected total circulation (approx)
1-100,000	0-1,000,000 (random)	8 December 2013	50,000,000,000	50,000,000,000
100,001-144,999	0-500,000 (random)	14 February 2014	11,250,000,000	61,250,000,000
145,000-200,000	250,000 (fixed)	17 March 2014	13,750,000,000	75,000,000,000
200,001-300,000	125,000 (fixed)	28 April 2014 (estimated)	12,500,000,000	87,500,000,000
300,001-400,000	62,500 (fixed)	2 July 2014 (estimated)	6,250,000,000	93,750,000,000
400,001-500,000	31,250 (fixed)	9 September 2014 (estimated)	3,125,000,000	96,875,000,000
500,001-600,000	15,625 (fixed)	18 November 2014 (estimated)	1,562,000,000	98,437,500,000
600,001+	10,000 (fixed)	26 January 2015 (estimated)	5,200,000,000 per year	No limit

Fig. 16. Programmed sudden jumps in DOGE block reward

A few more successive block halving events in Dogecoin are programmed every 69 days leading to rapid decline in hashing power. This is again **unbe-**

⁴³ The same phenomenon of rapid decline in hash rate at moments of block halving, was also observed with Unobtanium currency, cf. Fig. 13 in Section 10.1.

lievably fast speed for a financial asset, not less crazy than with Unobtanium cf. Section 10.1.

11.2 How Vulnerable Is DogeCoin?

In this paper we show that Dogecoin is threatened by the 51 % attack in more than one way. For example in April 2014 it was reported that one single pool in DogeCoin was controlling 50.3 % of the network hashrate http://www.reddit.com/r/dogecoin/comments/22j0rq/wafflepool_currently_controls_503_of_the_network/ . Moreover the pool managers can execute attacks without the knowledge of miners, see Section 8. However bigger threats come from the fact that the hash power in Dogecoin is declining and the hash power available outside Dogecoin is becoming many times larger than the whole of Dogecoin, knowing that the hash power used to mine for one currency can be reused (with our without the knowledge of the miner) to mine for another currency, cf. Section 8.2.

11.3 Latest News: Decline Under Our Eyes

The latest Dogecoin halving event has occurred on 28 April 2014 at 14:32. Our theory predicts that at this moment either Dogecoin market price goes up abruptly (not very likely) or the hash power should be then divided by 2 in a short time. At this moment Dogecoin capability to be protected against double spending attacks will be seriously affected.

In order to verify if our theory is exact, we have observed the hash rate of Dogecoin at dogechain.info in the hours following the block halving on 28 April 2014. We have observed exactly what we expect: a decline to achieve roughly half of the previous hash rate. We were in fact surprised by the rapidity of this decline.

In a few hours the Dogecoin hash rate has declined below 50 Gh/s while AT THE SAME time one single miner had 21.70 GH/s <http://wafflepool.com/miner/14t8yB3PDGfZT3VppxMY4J9xiBaXUcZvKp>, which data are updated every 15 minutes.

11.4 Is Dogecoin Under Attack?

At one moment at 15h44 we have actually observed that the hash rate went down to 40 GH/s for a short moment and conditions for a 51% attack have been met. **One single miner had 51 %** for a short while.

At another moment we have observed that the hash rate has increased 10 times in a very short time, see Fig. 18, and went back to normal few minutes later. We do not know if this was an attack on Dogecoin of the precise sort we study in this paper, and we do not know how much the data reported by dogecoin.info are reliable. The peak hash rate of 548 TH/s shown at this moment seems too large to be true and would exceed the hash rate of Litecoin.

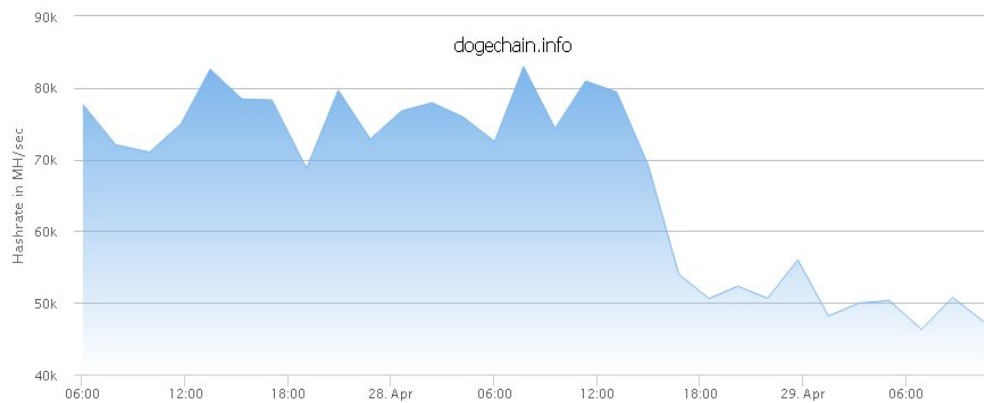


Fig. 17. Rapid decline in DOGE hash rate in hours after block halving.

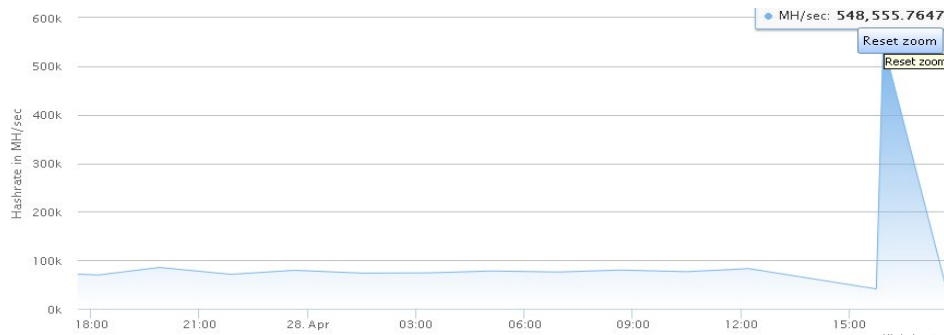


Fig. 18. A rapid increase in DOGE hash rate observed in hours after block halving.

11.5 Near Future - Is There A Criminal Business Case?

It is easy to show that Dogecoin can hardly survive in the current form.

After April 2014 there will be a few more periods in which the block reward will be halved after 69 days, cf. Fig. 16, and accordingly the hash rate is also expected to decline twice at each moment. Overall we expect that at the end of 2014, the hash rate of Dogecoin will be already some 32 times smaller than what it was in February 2014, when it was equal to that of Litecoin. We expect that very soon Dogecoin will become **a perfect target for criminal activity where money can be made easily**. Let us discuss if this is really plausible. We restrict to the question if double-spending attacks will be feasible.

It has already happened on April 28 that ONE SINGLE MINER had enough hash power in order to execute a double spending attack. The worst is however yet to come. We claim that in the coming months it will be possible for criminals to execute double spending attacks with much lower investment. Here is one possible way for an attacker to proceed:

- The attacker needs an initial amount of say 10 times the amount of money mined in one block, currently about 10x120 USD, he needs about 1200 USD.
 - He sends 600 USD to some recipient and keeps 600 USD for the cost of doing the blockchain manipulation.
 - He executes the attack as in Fig. 10 page 29 and spends 600 USD on mining.
 - The attack will be feasible as soon as a certain fraction of hash power in Litecoin is available in hosted cloud mining. It should be at least 51 % of Dogecoin hash rate which is going to become very easy in the coming months due to very rapid decline in the hash rate predicted due to Table 16.
- There is also another even more subversive scenario in which pools automatically provide computing power to the attacker, without the knowledge of miners and without the knowledge of pool managers, see Section 8.3.
- He is then able to spend his 600 USD again as in Fig. 10.
 - The net profit in this attack is 600 USD and it takes about 5 minutes.

11.6 Additional Signs of Decline

Few days after this paper was published, Tim Swanson from CoinDesk news service wrote a long paper about Dogecoin [69] in which he has independently come to very similar conclusions than in this paper.

The paper [69] displays a very interesting graph which shows that the popularity of Dogecoin as a currency has also been declining: cf. Fig. 19 and [69].

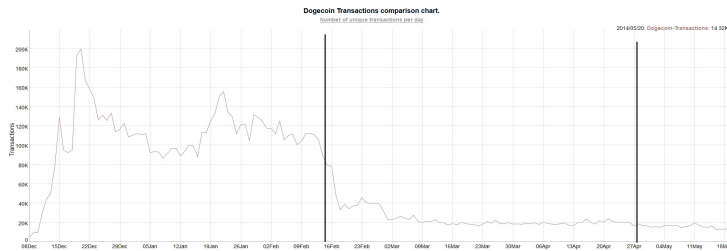


Fig. 19. The decline in the number of transactions in Dogecoin observed after successive reward halving events.

11.7 Better Prospects For Dogecoin in 2015?

Let us assume that Dogecoin survives until 2015, and it is not destroyed by massive outflows of capital, double-spending attacks and serious for-profit blockchain manipulation or a mining cartel attack, which will be very surprising.

The situation is expected to stabilize in 2015. After January 2015: there will be no more reward halving in Dogecoin. There will be a steady production of new coins and progressive but infinite growth of monetary supply.

- 98 billion coins will be released by January 2015.
- Then some 5.2 billion more coins will be produced each year.
It is like a 5 % increase in the monetary supply in the first year, slightly less in the coming years.

Unhappily at this moment the hash rate of Dogecoin will be maybe 50 times lower than in Litecoin, which is what we expect from Table 16. It will be difficult for Dogecoin to compete with Litecoin. It is expected to remain permanently weaker, and if the specification is not changed, it will become a permanent target for profitable criminal activity, as shown above. However the Dogecoin developers can apply some fixes such as proposed in Section 7.2 and their currency will be able to function correctly in spite of having a low hash rate.

11.8 The Improbable Revenge of Dogecoin in the Long Run

Ironically it is possible to see that in the long run, like after 10, 20 or 30 years, Dogecoin hash rate should again exceed that of Litecoin, this is if they are still in existence at that moment and their miner reward policies are not reformed. This is because the monetary supply of Litecoin is fixed, and the monetary supply of Dogecoin is unlimited. In the long run, Litecoin will see the profitability of mining halved many times, while it is expected to remain relatively stable in Dogecoin. Accordingly we expect that the hash rate of Litecoin will in turn decrease at certain moments (every 4 years, next halving expected in August 2015). This process is expected to take a lot of time, probably many decades because Litecoin is more popular than Dogecoin, and some of the decreased income for miners could be compensated by the slow appreciation of Litecoin and higher amount of transaction fees collected in Litecoin.

11.9 Recent Events - The Rescue Operation - August 2014

There is no doubt that Dogecoin can hardly survive more than a few months. A serious reform and a hard fork of Dogecoin is needed.

This has been finally announced on 4 August 2014, cf. [44]. Josh Mohland, one of the key people behind Dogecoin and creator of the microtransaction service dogetipbot, have tried to absolve the Dogecoin creators from any responsibility in designing a faulty financial network which exposes users to important risks. He contended that Dogecoin was never "intended to function as a full-fledged transaction network", citing [44]. He clearly agrees with us (the present paper) that without a reform Dogecoin is in very serious trouble. In fact he takes an even more radical view that Dogecoin faces **certain death**, well at least in the sense of double spending attacks, cf. [44]. More precisely he has stated that:

”Dogecoin was built to die quickly none of us expected it to grow into the absurd entity it is today. With that said, there’s absolutely an easy way to save the coin from its certain death (and by death I mean 51% attacked [...])”

The solution announced is to implement merge mining with Litecoin and other similar currencies. It is ”a simple change” according to Mohland. He also stated that

”the risk of a 51% attack far outweighs perceived costs”

Following [44] the merged mining solution, or more precisely auxiliary proof-of-work (AuxPoW), is such that it

”enables the dogecoin block chain to receive work from other script-based networks. Current Dogecoin miners will still be able to generate blocks and receive DOGE, but now, litecoin miners will contribute hashing power to the dogecoin network.”

It is important to note that this has followed many months of intense debates in the specialist communities about what to do to save DogeCoin from destruction, cf. also [69] and this paper. Following [44] the Litecoin creator Charlie Lee have very generously suggested to merge the mining back in April 2014, but it was initially not well received by the Dogecoin community⁴⁴. Finally they have accepted this solution, as probably (in our opinion) every other reasonable solution would require for Dogecoin to break their monetary policy and produce more coins, diluting the current coins. See also Section 5 and Section 5.6.

⁴⁴ Or maybe simply the necessity of doing something in order to save Dogecoin from destruction was not yet well understood.

12 Future of Bitcoin: Is Bitcoin Strong Enough to Avoid Programmed Decline?

Now we are going to speculate about privileged moments in time at which bitcoin could see a decline in its hash rate. The next block reward halving in bitcoin is predicted to happen on **22 August 2016** according ⁴⁵ to bitcoinclock.com.

We predict that a major crisis of bitcoin digital currency could occur at this moment. In fact however it does not have to be so. We predict that bitcoin will be in trouble **only if** some preliminary conditions⁴⁶ are also met at this date:

1. If bitcoin mining has sufficient competition by that time,
2. If miners are willing and able to reprogram their ASIC machines to mine for other competing crypto-currencies,
3. If overall mining market outside of bitcoin will be large enough to provide a better mining income in a sustainable way: even if there is a massive transfer of hash power from bitcoin to these alternative crypto currencies.
4. If bitcoin specification is not changed (cf. changes proposed in Section 7.2).

Then we predict that at this next bitcoin block reward halving (in or before August 2016), the hash power will massively shift to other crypto currencies. This could possibly destroy the reputation of bitcoin as it might suddenly become vulnerable to 51 %-like attacks such as described on Fig. 10 page 29. We stress that such transition could happen nearly overnight, on some day in 2016.

12.1 Possible Consequences

At a certain moment in the future we predict a rapid transition to occur and bitcoin becoming vulnerable attacks. We expect that such a transition can lead to a rapid decline of bitcoin as people can switch to other competing crypto currencies very quickly as soon as double spending suddenly becomes feasible to execute in bitcoin. More importantly, merchants would probably **all of the sudden stop accepting any bitcoin payments whatsoever** (the tipping point). This would be as soon as it becomes profitable to commit double spending attacks and therefore it will become very risky to accept any bitcoin payments (as they can be reversed later).

12.2 Counter Arguments

It is very difficult to predict the future. **How can we claim** that a 50 % reduction in mining income will make miners massively quit bitcoin mining? This seems to be in contradiction with recent bitcoin history. In fact the actual reward

⁴⁵ However this is subject to some known irregularities and imperfections in the automatic difficulty adjustment mechanism of bitcoin. It is known that the bitcoin clock have been accelerating. Some authors claim the block 420,000 and the block reward halving will happen at up to 1 year earlier, maybe in May 2016, maybe as early as September 2015, see <https://bitcointalk.org/index.php?topic=279460.0>.

⁴⁶ See also Fig. 12 page 51.

for every existing bitcoin mining machines **HAVE BEEN divided by two** countless times already. For example it was divided by two **NEARLY EVERY MONTH** in the last 12 months, see Fig. 3. Yet people **did NOT** go to mine for other crypto currencies at a massive scale. There was no important displacement of hash power, though certainly there was some (which works in both directions, many miners people also switched from other currencies back to bitcoin mining, see Fig. 13). Overall the majority of people kept mining bitcoins as usual.

The reason why miners did not stop mining bitcoins is that miners had no choice so far. No plausible alternative to switch to.

12.3 Decline or Persistent Domination?

We observe that until now there was not a sufficiently strong SHA256-based bitcoin competitor to switch to (LiteCoin does not apply). As long as bitcoin remains a **dominant** monopolist crypto currency, our predictions about decline of bitcoin simply do NOT work.

Now we anticipate that sooner or later competition to bitcoin will be there. One or several SHA256-based crypto currencies will be able to provide higher returns for miners contributing raw hash power.

Remark. This is more than just an opinion. We believe that in the future one should be able to develop a sort of economic theory which shows that this is very likely to happen as already explained in Section 5 as a predictable consequence of several contributing factors: current monetary and reward policies which erode the miners' income⁴⁷ with important and sudden jumps⁴⁸, competitive markets⁴⁹ and other factors⁵⁰ including precisely their yet lower level of protection for some currencies⁵¹.

⁴⁷ One argument for this (due to J. Kroll) was that bitcoin reward policy is NOT generous enough and does NOT reward miners well enough in the long run, see Section 5.3.

⁴⁸ Such sudden jumps have no justification whatsoever, they can only be harmful. They are NOT justified even if we keep the premises of fixed monetary supply, see Part 3 of [23].

⁴⁹ When mining becomes less profitable miners are going to increase transaction fees which is going to seriously affect the adoption of bitcoin as a medium of exchange, see Section 5.4.

⁵⁰ We can also argue that one of the reasons why bitcoin has attracted such a growth was the expectation it will raise a lot, which is due to built-in unreasonable deflationary monetary policy. Then once bitcoin have achieves the peak of possible appreciation, possibly already in 2014, other crypto currencies with "more reasonable" policies and settings in the sense of Section 5, are likely to emerge as obvious challengers and drive bitcoin out of business.

⁵¹ Additional important shifts in hash power could occur because several criminals might simultaneously be trying to exploit all other SHA256-based crypto currencies in which double spending attacks will be easier to execute by displacing hash power rapidly in both directions, also possibly playing with automatic difficulty adjustments in these currencies at the same time.

12.4 Could Bitcoin Be In Trouble Earlier?

A predicted decline of bitcoin in the future could be due to for profit blockchain manipulation or other reasons, and could happen much earlier than predicted, because of:

1. Bad reputation: very substantial proportion of bitcoin in circulation are already a product of criminal activity, cf. [8, 32].
2. A decline in bitcoin popularity as a currency for ordinary people: Bitcoin popularity is in decline cf. Fig. 5 page 7 and transaction activity is in decline cf. Fig. 9 page 9. There are further alarming indicators which are not always correctly interpreted by the news reports, see Section 2.5. Decline in popularity could somewhat inevitably follow due to centralisation of power⁵², cf. GHash 51% fears, centralized code development, only rich people can mine etc.
3. There is a steady decline in number of peer-to-peer network nodes interested in supporting the bitcoin network. The number of active network nodes is falling below reasonable levels, cf. [16].
4. Bitcoin could also be destroyed by an unhappy network or security incident. A well known bitcoin expert Antonopoulos considers that there is a risk that "we blow it up by accident", cf. [3].
5. Bitcoin is also threatened by bad governance and effective self-destruction of bitcoin by the very people who run, develop and promote it every day. For example due to a promotion of mistaken ideas and a serious lack of pro-active security engineering in bitcoin community, cf. Section 13. A well-known bitcoin core developer Peter Todd have in June 2014 identified "what needs to be changed" in bitcoin in order to make it less centralized⁵³. He fears that bitcoin community and bitcoin developers are not up to the challenge and are unwilling or unable to see or/and address these problems: we hear that "it will take a system failure to get people to agree to implementing these changes" cf. [73] and "it might take a disaster to get the consensus to fix it" cf. [72]. Accordingly we read that **"Peter is preparing⁵⁴ for the possibility that the Bitcoin ecosystem will break down"** [73, 72].

⁵² For example in [46] we read that " Bitcoins [...] use of collaborative community to police the problem of double-spending [...] can only remain valuable for as long as it is not overtly exploited by just a few hands. The more a few hands monetise and dominate the system, the more it threatens to lose the users and participants that make it have value in the first place. [...] whenever you try to extract value from voluntarism, [...] incentive to stick around will dissipate eventually."

⁵³ He postulates 3 exact points to be changed/reformed, 1. Eliminate pools 2. Make solo mining profitable 3. Eliminate ASICs. All these 3 are about making bitcoin mining more democratic and at the same time more resilient. In addition it seems that goals 1. and 2. are rather realistic cf. [36], while goal 3. is more problematic and might never be achieved, cf. [72, 73].

⁵⁴ This is one of the reasons why he publicly announced that he sold 50 % of his bitcoins [72] which he claims was because "I made a promise to myself a while back that I'd sell 50% of my bitcoins if a pool hit 50%, and it's happened".

13 The Questions of Customer Risks, Trusting Bitcoin Developers, How Much Can We Trust Satoshi and Academic Researchers, and Possible Future Regulation

In this paper we have studied a lot the question of risks related to the miner behavior. Great majority of miners are anonymous and bitcoin mining suffers from dangerous centralization and insufficient network neutrality, cf. Section 7.1. We have described endless scenarios in which miners can influence which transactions get accepted or miners can be abused by a sort of man-in-the-middle attack in order to take part in criminal activity cf. Section 6 and Section 8.

Now there are also risks related to the bitcoin source code development.

13.1 The Question of Bitcoin Source Code

Bitcoin has this “anonymous founder” syndrome⁵⁵. There were numerous security scandals in which a lot of bitcoins have been stolen [8, 32]. Alt-coins are much more vulnerable: the Dogecoin network is facing nearly total disintegration see Section 11.9 and [44, 69], and the same is true for Unobtanium cf. Section 10.3. All this can create some uneasy feelings.

It is a common misconception to believe that open source code is most probably secure. There are several very serious questions:

1. Why should open source code be secure if very little or insufficient effort is typically made in order to make it secure?
2. In the traditional industry developers are paid, and seem to never get the security right: we have endless security breaches and alerts. Can we ever hope that bitcoin developers will take care of security? In fact bitcoin has always been presented as experimental rather than mature system.
3. In a similar way the Dogecoin developers and promoters do not want to admit responsibility for their own actions and their consequences. We hear that Dogecoin was never “intended to function as a full-fledged transaction network”, citing [44] and that consequently at this moment it faces nearly “certain death”, this in fact mostly and exactly for reasons studied in the present paper, cf. Section 11.9 [44].
4. Actually open source software is not more secure than closed source according to [2]. Moreover quite possibly, on the contrary, it will be less secure. Malicious developers are **more** likely to work on such source code than honest developers. This is because rogue developers will be motivated by profit, while honest developers will see no incentive to work on this code.

Accordingly, a recent paper [55] takes the view that customers in the area of financial services should be protected against security risks through some sort of regulation of precisely open source software systems. We read that:

⁵⁵ Quite happily with the exception of the founder current bitcoin developers are not anonymous, see [57]

The open-source nature of the developer population provides opportunities for frivolous or criminal behavior that can damage the participants in the same way that investors can be misled by promises of get rich quick schemes. [...] Regulations could ensure that cybersecurity requirements are engineered into the code [...]

This is a somewhat very surprising proposal, see Section 13.14.

13.2 The Question of Risk Awareness and Security Culture, Bitcoin vs. Information Security

In addition, there is another very serious and closely related problem. It the quality of the public discourse about the security of bitcoin (such as on the Internet, in the press, in bitcoin forums, public events, specialist conferences, etc). As a security professional **we are under a definite impression that insufficient attention is paid to security questions in the bitcoin community at large**. For example we can observe that:

1. Extremely few professional security researchers study bitcoin.
2. There are hundreds of conferences about bitcoin each year but almost none of them resembles in any way an academic information security conference. For example no community-run bitcoin conference has a competitive open call for papers and publishes contributed works in the form of proper academic papers.
3. Furthermore the volume of academic research on bitcoin published each is year is astonishingly low compared to the number of press, media, blog and other coverage of bitcoin in the public media space. The effect of this is that the many important questions concerning security of bitcoin are excessively simplified, badly understood, distorted or ignored.
4. The bitcoin foundation contains no single academic information security expert and lacks cyber-security culture, cf. Section 13.3 below.
5. It is even more striking for cryptography. Almost every day we hear sentences such as "in crypto we trust" in bitcoin community. However this crypto currency is run by a group of people which does not contain a single academic cryptographer.

The dominant discourse about bitcoin is always excessively optimistic and does not expand on the security threats and risks [8, 32]. When it does, it quite shallow, naive and superficial. We have known this sort of situation for decades in the area of computer software and security. However here the situation is arguably really different. For many people ignoring the risks – **specifically in the financial sector** – is not acceptable. This is why the financial sector is typically regulated in most countries, and it is typically required that the customers should be made aware of the risks. This at least for assets which are likely to be used by ordinary people to put their savings in, which is clearly the case for bitcoin, cf. [55] and Section 13.14.

13.3 Optimistic vs. Pessimistic and Cybersecurity Culture

The golden standard in information security is "It's always better to assume the worst" because "when the unexpected happens, you'll be glad you did" this following the well-known information security engineering and applied cryptography guru Bruce Schneier [63]. We don't exactly see that in bitcoin community. Almost every day we hear certain bitcoin supporters and commentators being very negligent or propagating poorly informed opinions⁵⁶ when discussing some major risks and threats in bitcoin. Many serious security questions we are aware of have been already somewhat discussed in some specialist bitcoin forums. However we observe that:

1. Major risks and threats such as studied in the present paper are far from being understood correctly.
2. Attacks and defenses are not studied in a systematic way.
3. The approach of bitcoin developers is very clearly a "risk taking" approach rather than avoiding the risks in order not to take chances, cf. [63, 72, 73].
4. We also see a lack of informed expert opinions which would warn the public about risks. This paper alone is unlikely to solve this problem, and we write mostly for a specialist audience.
5. There is an excessively large volume of text in bitcoin forums, literally tens of thousands of pages, and everybody is entitled to their opinion, which makes it hard to understand what is really going on and how important the problems really are.

Bitcoin developers and bitcoin foundation cannot be blamed for all the security problems [8] and cannot be blamed for not having an army of cyber-security experts which is there to defend bitcoin against attacks. There might have been doing their very best efforts. However it is a fatal mistake for people running a financial systems used by millions of people not to seek help of cyber-security and cryptography professionals. An enthusiastic optimistic promotion of bitcoin technology and software cannot justify an easy going approach which dismisses the risks as the last thing bitcoiners should worry about or something reserved for strict specialists to study, while in fact they concern every single user of this financial system.

⁵⁶ Let us give just one example: in [3] we hear that if SHA256 is broken "it doesn't matter at all" for bitcoin, and further claiming that it would ONLY somewhat affect the miners. In fact SHA256 concerns every single bitcoin transaction which is hashed with SHA256 before signing. If SHA256 is broken, their authenticity could no longer be guaranteed. We have seen many more similar serious mistakes in the bitcoin community where serious security questions do not get a chance to be discussed by proper security experts who make an effort to really understand and study these questions properly.

13.4 More Specifically - Double Spending and 51 % Attacks

The question of 51 % attacks is very frequently discussed in bitcoin community and yet remains very poorly understood. We have observed a worrying tendency to systematically present these problems in the wrong light and using highly misleading vocabulary, which makes it very difficult to see what the real problems are. More precisely it appears that the majority of people have a very restrictive and overall simply totally incorrect view of 51 % attacks, cf. Section 6.1 which is such that it essentially ignores these important risks totally or dismisses them under fake pretexts. Many of these misunderstandings can be directly blamed on the mysterious founder as we will see below, however other people need also to be blamed as will see later.

We start by recalling the point of view of Satoshi [56] on the 51 % attacks.

13.5 Satoshi On 51 % Attacks

As already explained in Section 6.1 the original paper of Satoshi [56] is a direct source of some very major misunderstandings in bitcoin. In Section 6 of this paper Satoshi expands on the monetary “incentive” given to miners for mining now blocks. It is all about how paying the miners for mining bitcoins is expected to make them behave honestly, and how it would be in their best interest to behave well. Initially Satoshi writes that:

”The incentive may help encourage nodes to stay honest.”

Until now we are inclined to agree. It may or it may not.

At this moment the discourse becomes much more specific about what the attacker is expected to be like and what he is likely or/and able to do:

”If a greedy attacker is able to assemble more CPU power than all the honest nodes,
he would have to choose between using it to defraud people by stealing back his payments, or using it to generate new coins.
He ought to find it more profitable to play by the rules, such rules that favour him with more new coins than everyone else combined, than to undermine the system and the validity of his own wealth.”

We see an image of a powerful entity which “assembles” a lot of CPU power under his exclusive control. The attacker is also represented as being wealthy, and we are inclined to believe that wealthy people do not want to engage in fraudulent behavior of any sort. However in most situations the attacker does NOT need to be very powerful to run double spending attacks. He does NOT need to be wealthy. Miners can just be tricked to participate in an attack without their knowledge, with man-in-the-middle approach, and the cost of such attacks is not very large, see Section 6.

Moreover very clearly Satoshi makes an important **technical error** here. He makes us believe that if someone commands a lot of the hash power, he will also be capable of “using it to generate new coins”.

This is totally **incorrect** and in a great majority of cases the attacker cannot steal coins⁵⁷. The key remark is that in the mining process the miner just needs to know the **public key**, while one needs to be able to steal or modify the **private key** in order to "generate new coins" for the attacker. There is plenty of ways for miners to operate and in most cases the attacker will be able to make the miner work for him without being able to ever steal his private key⁵⁸.

The founder of bitcoin can potentially be forgiven for this enormous technical blunder. After all he clearly makes another major confusion here: he says "nodes" and he means "miners". He clearly did not anticipate things such as pooled mining: Satoshi has written that in bitcoin every peer node will be mining, cf. Section 5 of [56]. Satoshi would probably be very astonished to see that now the number of miners is now much higher than the number of peer nodes which is reaching dangerously low levels [16].

However Satoshi is not the only person who gets it badly wrong. For example two Cornell researchers Eyal and Sirer [36] also clearly badly confuse between miners which may "hold 49 % of the [mining] revenue", with the control of hash power for the purpose of mining blocks, see [36]. Similar mistake is found in [17] and many other sources. Almost every day we hear about 51 % attacks in such a way as to ignore the actual threats and somewhat obliterate any sort of informed opinion about these important risks. Additional more specific examples will be discussed below.

13.6 On Careful Approach To Risk

We work in information security. Traditionally we have the following pattern in security research. On the one side, the industry tends to minimize the risks and frequently will dismiss or minimize the concerns about security problems, cf. for example [75] for bitcoin. On the other side the academics tend to play the devil's advocate [63]. Security experts have been trained to "always" attempt to "assume the worst", see [63]. In this paper we also frequently work from this point of view⁵⁹ Academic security researchers will potentially even exaggerate the risks, hoping to influence the industry not to take some important risks and to improve the security baseline. This makes a lot of sense, what is secure or secure enough today will maybe no longer be secure tomorrow.

⁵⁷ As an exception to the general rule, there are known cases of attacks on pooled mining where the attacker would be able to obtain the coins which were mined cf. [43]. In this attack the hacker was more powerful than we generally assume in this paper: he has hacked some major Internet service providers, and the attack could have been prevented by standard network security techniques such as TLS.

⁵⁸ This regardless whether this private key is hold by individuals (e.g. when mining with Eligius) or by the pool manager (the most frequent case).

⁵⁹ This is not always ideal, we also need to look at the average case, the most probable case, etc. However assuming the worst (within limits) remains the golden standard in security research, this is simply security and vulnerability analysis work which needs to be done and requires a good level of attention.

Quite interestingly, there is also plenty of examples of academics which take careless positions, or just not lucky and are later proven to be mistaken. As soon as there are systems in the design of which academics somewhat participate or are trying to participate⁶⁰, the academic discourse changes too. We need to learn also to mistrust the academics at times. They also tend to systematically to delude themselves that some systems are very secure. They will also on occasions claim that the risks and threats are small to inexistent, and may be proven badly wrong later on.

It remains that academics are typically very good at pointing out flaws in systems designed by others and they dedicate a lot of time and energy to that. For this reason the cautious and critical approach, sometimes maybe even excessively cautious and critical, is expected to remain dominant in the academia.

More Than Careful? We are also going to contend that financial systems do require a slightly **more** cautious approach than we already have in cryptography and security. This is because the financial sector is NOT like any other sector. It is subject to specific stringent laws regulations, and it is supervised and monitored by various government authorities. A blissful lack of appreciation of dangers of technical attacks on bitcoin is not a good idea, because it may mislead the public to put their money at great risk cf. Section 13.14 and [55]. Security professionals have a moral, professional and frequently also a legal obligation to uphold high security standards. Specific legal obligations exist in the financial industry⁶¹ and there are here typically stronger than in other industries. University researchers funded by public money are also among other here to warn and inform the public about all the dangers of using open source systems such as bitcoin.

All these are additional reasons why we need to be very careful when we make statements about security of bitcoin. In addition the nature of scientific research is such that for most questions there is no final definite answer, and opinions vary very substantially.

In what follows we are going to delve deeper into the questions of what exactly bitcoin miners which control a lot of computing power could possibly do, as these are crucial questions in bitcoin.

⁶⁰ In particular open source systems like bitcoin with an ongoing public discourse about their future improvements, reforms or security enhancements.

⁶¹ As an example we can cite the safeguards rule in the US Gramm-Leach-Bliley Act [GLBA] from 1999.

13.7 Sirer vs. Felten Debate

The question of what exactly a 51 % attacker can or cannot do is one of the most frequently discussed questions in bitcoin. In June 2014 Felten, a well known blogger in the technology space, has written the following words on his blog [40]:

”One way to understand the potential power of a 51% attacker is to consider that they can simply change the rules of Bitcoin at any time.

And the changes could in principle be drastic:

a “pay me a 5% fee on every transaction” rule,

or “a million new Bitcoins exist and belong to me” rule”.

Few days later Sirer, a well-known university researcher has written on his blog the following statement [62] which claims exactly the contrary in such radical terms that it belongs to the far remote end of the spectrum of possible opinions:

”the miners’ hashing power has absolutely no say in determining how the protocol evolves”.

Both positions are very strong, and represent two radically different points of view. Moreover it is clear that it is not really possible to agree with any of these two positions. Inevitably the truth lies somewhere between these two statements.

Interestingly, Felten has not been so far able to defend and justify his position very well. When confronted with strong objections to his statement, he disagrees with the critics, however even if find what he says plausible, we do not see any convincing arguments in his blog [40]. In contrast Sirer has written a whole long blog entry which tries very hard to justify his opinion and presents several different arguments. We will examine these arguments below, and show that in the light of the present paper and our improved understanding of 51% attacks, none of his arguments are really convincing.

Overall we will see that the control of 51% of the hash rate gives very substantial powers to miners, but not an absolute power. We will agree with Felten that ”a true 51 % attack is more serious than people have generally recognized”, cf. [40] however we do not believe when Felten suggests that some truly drastic changes could be imposed by miners.

Can The Position of Sirer Be Justified? We present here one truly amazing citation from Sirer’s blog [62]:

**”A 51% miner does not have 51% of the vote;
in fact, GHash has just as much say
over the contents of the blockchain
as do I, or you, or anyone else”.**

Independently of the exact context in which this was written, which is slightly confusing⁶² we find this citation very surprising. GHash would certainly not

⁶² Maybe the answer in a long term perspective could be different than the obvious fact that in the short run it is the miners who decide.

agree. They have never denied that 51 % attacks are rather a "serious threat", cf. [41]. How is it possible to write such a statement? Can it be ever justified?

This citation will maybe just amuse specialists who will debate vigorously on its merits in hermetic technical papers and dismiss it eventually, or contend that maybe Sirer meant something like, well in the long run and under certain conditions this bold statement might possibly hold. For example Sirer introduces a notion of so called Chain Power, which is not a well defined notion and means something like the power to create a long term consensus about what kind of blockchain is acceptable. Hypothetically the miners would only make decisions guided by "what the buyers and sellers accept as the legitimate blockchain" and would not do anything which a broader community would not like.

This is indeed possible, well in theory, and in an extremely optimistic scenario. However it is simply very naive to count on it. This is **NOT what security engineering stands for** which should always try to assume that bad things are likely to happen [63].

On Voting. This is not the only very surprising statement in this blog. It also covers the question of voting power and disputes one of the most fundamental⁶³ basic properties of bitcoin: the fact that the voting power in bitcoin is proportional to one's hash power. In this space Sirer claims that somewhat (presumably rather only in the long term) in bitcoin everyone "gets a single vote, no more, no less, on what kind of a blockchain they will accept." We do not deny that users and bitcoin adopters could exercise some influence, even though nobody is quite sure how⁶⁴. However in addition it is claimed that "Miners are [...] just like every other user." Putting an equality sign between the powerful Ghash mining pool or a very powerful miner who has invested hundreds of millions of dollars, and "you, or anyone", cf. again [62], potentially ordinary people involved in bitcoin transactions, is rather irresponsible. This citation does not only disregard major threats which concern almost every single bitcoin transaction. In addition ordinary users are made to believe that THEY are in charge and that they have something to say in bitcoin. This form of wishful thinking about security and a belief in wisdom of crowds exists in computer science, for example in the open source software community. However in information security it is NOT a good practice to be naive and dismiss the risks. On the contrary, cf. [63]. Researchers has historically always tried to defend the public against threats and attacks. Finally, again the situation becomes more serious because and when there is a lot of money at stake.

⁶³ The decision by the majority of hash power was introduced by Satoshi following the original idea by Adam Back [4]. It exists for some very good reasons: it is believed that voting weighted by computational power is really the key property which allows potentially to solve some very major difficulties in the design of secure distributed systems such as the well-known Byzantine generals problem [3] and Sybil attacks [5].

⁶⁴ We should ask is this ever possible at all: users have no influence in the short run, why would they have one in the long run?

We feel obliged to say how much this claim is just contrary to not only to the common sense but also to **almost every single word ever written about the bitcoin mining process and related risks**. It ignores even the most widely understood threats⁶⁵, not only some highly technical super subversive variants studied in this paper. It is an example of easy-going excessively naive and utopian thinking about the security of P2P financial systems supported by dubious argumentation without regard to consequences for potential victims of this intellectual and financial security negligence.

The Football Club Analogy. Sirer presents another argument. Sirer claims that the real power in bitcoin network is with bitcoin adopters, or users of bitcoin wallet software, see [62]. He compares miners or pool managers to "the owner of a soccer team" who "may appear to have total control over administrative decisions". However, he claims that in any football club, it will be "ultimately the fans who are fully in charge", for example they can "routinely kick out bad management, drive away players and override bad decisions by the seemingly powerful administration". This argument is clearly faulty: it can be compared to claiming that the voters who vote once every 4 years have any strong influence on any single decision of our governments. Moreover owners of soccer clubs are typically not at all democratically elected, so any claims about the very existence of the voting power of the fans are technically void and are rather just wishful thinking.

13.8 Bitcoin Specification and The Power of Miners

Until now we have considered primarily the question of influencing the content of the blockchain in the short or medium term. In the long run the objective could be much more ambitious: changing the bitcoin specification. For example we recall that Felten claimed that "a 51% attacker [...] can simply change the rules of Bitcoin at any time", cf. [40], in a rather drastic way, like for example produce a large quantity of bitcoins. A more moderate goal could be to replace the hash function used in bitcoin mining. This is less drastic. Even though it could potentially put all ASIC miner companies out of business and render hundreds of millions of dollars of investment obsolete, it could be supported⁶⁶ by the

⁶⁵ There are tens of thousands of web pages which speak about this threat, GHash.IO themselves have publicly stated that they will take "all necessary precautions to prevent reaching 51% of all hashing power" which is a "serious threat to the bitcoin community", cf. [41]. Some famous bitcoin developers go further and said that they are preparing "for the possibility that the Bitcoin ecosystem will break down" and that price of bitcoins could collapse, mainly in relation to this 51% GHash threat, and inability or unwillingness of the bitcoin technical architects to respond to this threat: we hear that it could take "a system failure" or "a disaster" for these problems to be taken seriously cf. [72, 73].

⁶⁶ However even in this case, we don't agree with Felten and claim that such change is likely to fail to be accepted (or lead to a split in bitcoin community), see Section 6.5 and 14.1 of [23] and [47].

majority of ordinary users who are deeply concerned by the current centralization of bitcoin mining. Another sort of change would be to try to make bitcoin truly anonymous, which probably nobody would object except the crime enforcement agencies.

In general the stakes are very high when changing the bitcoin specification is considered. In this area Sirer arrives at conclusions which in our opinion are at odds with elementary common sense. First it is claimed that (cf. [62]):

”regular users wield ultimate power in Bitcoin”

Following our discussion in Section 13.7, this is already something which we will find very hard to believe, possibly again an expression of utopian wishful thinking. We can however agree that this is more likely to be true in the long-term perspective than for the next few blocks. We could also agree that this could hold for some truly radical reforms, for example possibly Sirer is right when he says that

”miners [...] could not, for instance, create 10 million Bitcoins out of the thin air, because no one would recognize those new rules”,

Here many people tend to agree, because it simply seems hard to imagine that the bitcoin monetary policy could be changed as this potentially goes against interests of everybody, including miners. However on the other side, probably there could be a way to convince everybody that a different monetary policy is in everybody’s interest, and such a rule could be adopted by consensus, cf. Section 5.

Do Miners Have No Power? Interestingly Sirer goes again one important step further. We recall that he claims that ”Miners are [...] just like every other user”. Moreover he further writes that:

”Miners are subservient entities who must follow the decision of the Bitcoin community.”

Here ”the Bitcoin community” is understood as people who run wallet software ⁶⁷. Now if we make this claim more precise and restrict it to the bare few thousands of ”full network nodes” which propagate the transactions in the peer-to-peer network, it may seem that there is some truth in what Sirer says. These ”active” bitcoin software nodes could in theory ”completely change the rules that govern the maintenance of the blockchain”, cf. [62], and miners will simply mine on transactions which they will be allowed to receive.

⁶⁷ This term is not sufficiently precise in order to be able to make meaningful statements about these questions. No distinction is made between rather passive ”wallets” which can be just used to store bitcoin balances and on occasions to spend them, without participating actively in the peer network, and full network nodes which are the only entities which are must be active in the real-time and are the only people who can influence the propagation of other people’s transactions into the blockchain, and which transactions will reach miners and what moment (those received first have more chances for being accepted). Such active network nodes are unhappily much less numerous, cf. [16]

However not every change will be well received. In fact it is extremely difficult to claim that miners have no power and software nodes can change the bitcoin specification. On the contrary. We believe that the opposite is going to happen. Network nodes can just TRY to change the rules, however we are not sure if they will ever succeed.

13.9 Can The Bitcoin Network Implement A Reform Not Approved By A Majority Miners?

Let us imagine that the Bitcoin core software client which runs the bitcoin P2P network, implements new rules for bitcoin and for this purpose they define that when we have version=3 in the block data structure, new rules are going to apply see Fig. 2 and Section 6.5 in [23]. This is necessary to ensure a smooth transition as bitcoin network does NOT have automatic updates and it is totally impossible to upgrade all software nodes at once, and it is not even possible to upgrade a large number of software nodes at once, because nodes are run by volunteers and they are not likely to update when a new version is released. All this has happened before with a very slow transition: previously bitcoin had version=1 and for a long time both version=1 and version=2 were accepted. Nevertheless such a transition doesn't have to be accepted unanimously in the future. Below we present an elaborate example.

We claim that **miners can very easily maintain the status quo**, and reject all blocks with version=3. Then peers running a new version of the software will find themselves producing transactions which are not accepted by all miners, only accepted by a minority of miners. Miners who create blocks compliant with this new version=3 and include transactions compliant with version=3 (or/and follow other specific features or policies specified in version=3) will risk that their blocks will be rejected by other miners. Eventually even if a small proportion of miners produces sometimes blocks with version=3, they risk that majority of miners will not accept these blocks. Then the minority of miners who agree with the upgrade will find themselves running a forked blockchain. All this could happen ONLY because miners are too lazy to implement the upgrade, remember that less than 10 pools control over two-thirds of all the hash power, cf. [73, 25]. Not because some miners are malicious or they want to disagree with some specific bitcoin reform.

Overall, we see that **miners are NOT "subservient entities"** as claimed in [62]. If miners and peer nodes do not agree on the new rules which should be governing bitcoin, or if they are just lazy or reluctant to implement them, miners will continue to run the normal majority blockchain, with very large hash power, while the peers who decided to change the rules, will have at least for some time still accept version=2 and therefore both groups will be still sharing the same blockchain, and blocks with version=3 will simply fail to materialize, ever⁶⁸. After some time the peer nodes who support the reform could decide to reject

⁶⁸ This sort of situation is known in technology adoption: for example however much IPv4 was a "flawed protocol", it seems that the adoption of IPv6 is just NOT happening (not at all), see [3].

blocks with version=2, this even though blocks with version=3 failed to materialize. This would be a suicide for some bitcoin software nodes who would become totally incompatible with majority. In a rather improbable scenario, bitcoin developers force an automatic security upgrade overnight, on a majority of bitcoin nodes and a minority of miners. In this case we are sure to create a fork in bitcoin, which fork however would be devoid of substantial hash power. Then even if a majority of peer nodes upgrade the software, the “upgrade camp” fork will be vulnerable to double spending attacks with rapid hash displacement from the other group, and therefore no payment with the “upgrade camp” fork will be accepted by any merchant in a realistic time frame⁶⁹ fearing possible double spend. In contrast merchants can also safely accept all the blocks generated by (more conservative) miners with version=2. It appears that at any rate the upgrade will fail to be accepted if a majority of miners are not supporting the upgrade.

Preliminary Conclusions About The Power of Miners. Overall we claim that it is not correct to believe that: “The rules are determined entirely by what the buyers and sellers accept as the legitimate blockchain. Miners are subservient followers.” as claimed in [62]. On the contrary, miners have the real power. Following [73] “it is the mining pool operator that chooses the software with which to mine”, cf. [73]. Accordingly pool operators could mandate changes in bitcoin software much more easily than any other group of people. Interestingly these powers of miners are waiting to be discovered. They have been currently and temporarily given away for free. Until now, they were de facto confiscated by large mining pools. Yet the power of the has power is real. In case of a disagreement, ultimately buyers and sellers probably have no other choice than to accept the chain with large hash power as legitimate⁷⁰ which is exactly how bitcoin was build by Satoshi since ever, as this provides serious protection against double spending attacks.

Related Work. In June 2013 a group of Princeton researchers [48] have published a detailed analysis of various scenarios concerning building consensus in bitcoin. In their conclusion they write:

[...] Bitcoin is not the fixed, rule-driven, incentive-compatible system that some advocates claim. Although miners currently follow the original rules, this behavior is stable only by consensus and the rules could be changed at any time [...]

⁶⁹ This situation was for another crypto currency qualified simply as “certain death” of this currency, cf. [44].

⁷⁰ Not a chain with which they would agree on some ideological technical or political grounds.

13.10 Soft Power: Illusion or Reality?

We have seen that if there is a disagreement, miners are likely to always win over peer software users. It remains the question of “soft power”. What if we are talking about not a controversial reform but other changes which maybe will not be perceived as problematic by miners. In this case quite possibly Sier is right. It is quite plausible that people or bitcoin adopters can influence the future bitcoin spec and in some way “vote” for the content of the blockchain in various indirect ways. However we should note that:

1. Mechanisms in place to implement such changes mandated by a majority vote of network peers are inexistent.
2. Options promoted by peer nodes devoided of hash power could be just ignored by powerful miners, unless it is supported by some authorities or the press/media.
3. If any software changes such as version=3 are democratically imposed by a majority of bitcoin wallet nodes, and even if miners accept these changes, these changes will be very slow. They will probably take many months, possibly years to be implemented with co-existence of version=2 and version=3. This is obviously is by far too slow to prevent 51% attacks which can be executed in the space of minutes/hours, cf. Section 6.1.
4. Stake-holders in bitcoin are not always well informed about certain security issues, and for majority of them they simply don’t care because they deal with small amounts of money each time, or maybe are resigned to wait for a long time for their transactions to be confirmed.
When they are informed it is maybe going to be too late, bitcoin could suddenly be a victim of massive attacks, and the “soft power” will be unable to react to them.
5. In general there is strong asymmetry of information, between bitcoin software architects and pool managers, and the inert majority of bitcoin users.
6. Users are unlikely to ever realize that they don’t want bitcoin to function as it functions today, and that they want bitcoin to change, for example because they read so many misleading statements about 51% attacks as shown in Section 6.1 and in the present Section.
7. The current level of security awareness in the bitcoin community is low, bitcoin is frequently presented as almost a perfection in terms of security [18], Satoshi was a genius [15], and the more “academic” option to exercise critical thinking and some caution with respect to future attacks and events, and to try to improve or reform bitcoin cf. [7, 16, 21, 70, 77] and this paper, is not exercised very frequently.

13.11 On Power to Reform Bitcoin And Power to Block Reforms

In the previous sections we have argued that software nodes may try impose some changes in bitcoin and it is the miners or rather (currently) the mining pool operators who will have the last word because they control and can freely choose "the software with which to mine", cf. [73]. However it seems that it is way easier to block some upgrade cf. Section 13.9, rather than to impose a certain upgrade. Therefore radical changes such as creating 10 million new Bitcoins, cf. [62], could be very hard to mandate, but are NOT impossible. They are actually claimed perfectly possible by Princeton researchers [48].

For sure pool operators could mandate changes in bitcoin software more easily than anyone else but it remains an open problem whether they could mandate some really important reforms of bitcoin such as changing the monetary policy. This could maybe require a slightly larger consensus than just miners.

13.12 Alternative Centers of Power

The debate whether it is the miners or the users who have the ultimate power, or both, or they can or cannot do is actually even more complicated than we think. In bitcoin there exists an alternative **third** center of power. The power of holders of old coins! For example if bitcoin code is hard forked and people don't agree, people who own large balances could play on one side, like do different things with their own large balances in bitcoins on both blockchains, potentially detrimental to some people with whom they don't agree. More research on these questions is needed.

13.13 Can We Agree on Some Crucial Questions In Bitcoin?

The reality is always more complex than our ideas about it. However very clearly we find some claims of [62] totally devoid of logical argumentation, simply impossible to defend, and in many cases the closest thing to the reality is just the contrary of what is claimed in [62]. This is in particular the case in Sections 13.7, 13.8 through 13.9.

This is quite strange. In bitcoin we have progressively discovered that we should not trust the miners, that it is not exactly reasonable to trust pool managers either, and that we should learn to be highly sceptical of the security and quality of (any) open source code. Now we also discover that **we cannot always trust university researchers** to tell us the elementary truths about important financial systems used by millions of people. All this in the context of a distributed system which is expected to remove the traditional necessity to trust the people who build and run our financial systems.

13.14 Should Blockchain Technology Be Regulated?

This is a strange question⁷¹. The question which exact US financial markets authorities should be responsible for regulating bitcoin in the future is considered in a recent article [55] which appears in the Wall Street Lawyer journal.

Even more surprisingly the author suggests also that the blockchain itself could also be regulated and **separately**, probably because it has many potential applications outside of the world of finance. Here are some very interesting longer citations from this paper:

To be clear, I am not proposing that the weightiness of bank regulation [...] be applied to tech start-ups [...]

I am suggesting that the codification of development standards that good developers already use could help the network become safe

The open-source nature of the developer population provides opportunities for frivolous or criminal behavior that can damage the participants in the same way that investors can be misled by promises of get rich quick schemes. [...]

a self-regulatory organization (SRO) [...] could be created to oversee and examine [...] the engineers who create the code [...]

SRO could qualify and register developers and participants in the Bitcoin ecosystem [...]

Regulations could ensure that cybersecurity requirements are engineered into the code and could ensure that the network would recover from a failure by building in redundancy.

One of the biggest risks that we face as a society in the digital age [...] is the quality of the code that will be used to run our lives.

⁷¹ It is not the first time however it has been discussed, cf. [48]

14 Summary and Conclusion

Bitcoin has a number of features and properties which are sometimes presented as very interesting and positive. In fact they are closer to engineering mistakes. These features have been blindly copied by other currencies, so called alt-coins. Naive customers (cf. Section 13) are presented with software systems which are claimed to be payment systems and currencies which creates expectations that they will be relatively stable and that they are protected against attacks. In reality serious problems are programmed right there in the DNA of these currencies. Sudden jumps and rapid phase transitions **are programmed at fixed dates in time** and are likely to ruin the life of these currencies. In this paper we show that most crypto currencies simply **do NOT have a good protection** against double spending: the current protection is flawed or/and ineffective. Bitcoin and other crypto currencies which has copied the same mechanisms make such attacks too easy. We have been brainwashed with ideas about static 51 % attacks while dynamic redirection attacks which just temporarily displace 100% or more of hash power are perfectly feasible, cf. Sections 6, 8, 13 and Fig. 18.

14.1 What's Wrong?

We discovered that **neither Satoshi nor bitcoin developers have mandated any sort of transaction timestamp** in bitcoin software. This can be seen as an expression of some sort of strange **ideology**: giving an impression that maybe the *Longest Chain Rule* does solve the problems in an appropriate way. However clearly this rule is inadequate, it has definite perverse effects and it is in fact simply dangerous. Double spending events are not only facilitated by this exact rule as we show in this paper but they are not even recorded in the current bitcoin network, cf. [32].

The *Longest Chain Rule* is probably OK for deciding for which blocks miners will obtain a monetary reward (though more stable mechanisms could be proposed). However there is no reason why **the same exact slow and unstable mechanism would also be used to decide which transactions are valid. This is NOT a feature, it is a bug**, An engineering mistake on behalf of Satoshi Nakamoto, the founder of bitcoin. It affects not only the security of bitcoin but also its usability: it makes transactions unnecessarily slow, especially for larger transactions which require more confirmations, cf. also [38].

14.2 A Vulnerability Which is Programmed To Get Worse

In this paper we initiate something which could be called a *Theory of Programmed Self-Destruction of Crypto Currencies*. We look at built-in properties in crypto currencies and we point out the combined effect of several factors. We observe that vulnerability to double spending attacks is very closely affected by build-in deflationary miner reward policies and the fact that these policies mandate abrupt and sudden jumps. These moments are likely to coincide with dates on which the hash power is going to dramatically fall, most probably in August 2016 for bitcoin, and much sooner, at several moments during 2014 for Dogecoin, Unobtanium and many other existing coins. At one moment the protection cushion which is provided by the high hash rate disappears. It becomes

easier to execute double spending attacks. More importantly, we show that such attacks can be executed **WITHOUT** the knowledge of miners which participate in the attack, see Section 8.1. In Section 8.3 we describe a further realistic attack scenario in which this is done without the knowledge of pool managers.

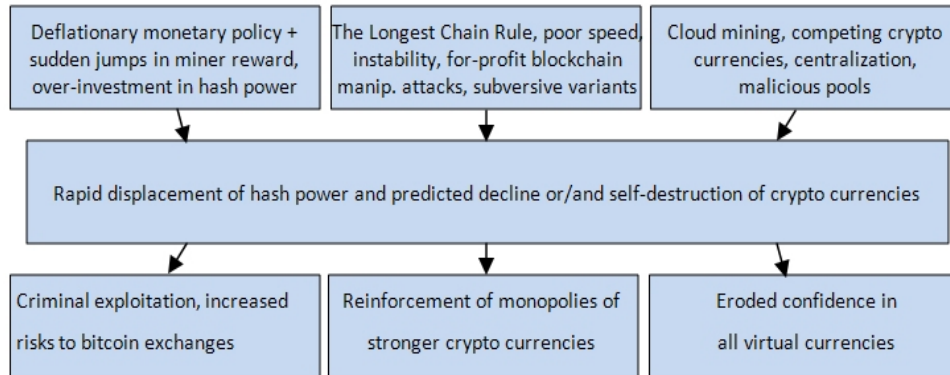


Fig. 20. The built-in risks and dangers in current digital currencies.

In this paper we have identified the DNA responsible for the epidemics of programmed self-destruction which is already affecting more than one crypto coin quite badly with rapid outflow of hash power within days/hours: cf. Section 10 and 11. We conjecture that for small coins, the Longest Chain Rule alone is sufficient to kill them. For large coins which dominate the market, it is still most probably fatal in the long run in combination with deflationary monetary policies, and in a competitive environment plagued by numerous moral hazards.

14.3 How To Fix It

There is no doubt that the virtual currency technology could be improved or fixed. At present a majority of existing crypto currencies have copied this problematic *Longest Chain Rule* of bitcoin and made things substantially worse by mandating substantially faster transitions in monetary policy and reward rules.

Our main claim is that bitcoin software **MUST** change and implement additional lower latency mechanisms in order to prevent and police double spending attacks better than with blockchain alone. It is urgent to modify the process of deciding which transactions are valid in a crypto currency. Our main claims are that 1) the order and timing of transactions **SHOULD** be used in order to decide which transactions are accepted, and that 2) in order to facilitate fast zero confirmation transactions double spending attacks should be increasingly difficult as time passes by and 3) bitcoin needs to create new incentives for more peers to support the network cf. [16]. The exact details remain an open problem. As a quick fix, in Section 7.2 we discuss possible solutions using timestamps and peer confirmations. Overall we expect to improve the security against double spending and also dramatically improve the speed of transactions in bitcoin and all other crypto currencies. Our solutions also promote better **network neutrality**: timing information makes decisions of the network less arbitrary and miners have less discretionary powers which could help the attackers.

14.4 Discussion

We should think twice before saying that what Satoshi did was wrong or mistaken. In Section 12 we show that current bitcoin specification makes that bitcoin currency has a privileged position. Smaller bitcoin competitors which use the same hash function are rather unable to survive, cf. Sections 10, 11 and [44, 69]. Bitcoin tends to remain in a monopoly situation while smaller alt-coins are in trouble, even if they copy its mechanisms exactly. Satoshi and other early adopters may then hope that nobody will challenge bitcoin and they will be able to earn hundreds of millions of dollars selling their coins, cf. Section 2.6 and 12.3.

Remark: Litecoin which uses a different hash function escapes this rule and creates a dominating position in its own space [19]. Here it has been recently challenged by Dogecoin which has achieved a comparable hash rate in February 2014. Unhappily as we show in this paper, the hash rate of Dogecoin is now bound to substantially deflate. It has already become highly vulnerable to double spending attacks, which can be executed by one single miner, cf. Section 11.5.

14.5 Investors and Alt-Coin Designers in Trouble

In this paper we have studied how hundreds of millions of dollars were invested in bitcoin. On one side it is a bubble, on the other side it is an investment. An investment in building secure distributed hashing infrastructure which has costed hundreds of millions dollars and consumes tens of megawatts in electricity. In this paper we show that this investment does **NOT** do the job correctly. We claim that large hash power is **neither necessary nor sufficient** in order to run a digital currency system. We contend that this expensive electronic notary infrastructure is **not** needed for bitcoin to function correctly. It is **not** justified by security against double spending. Now it may appear necessary, because bitcoin and other digital currencies have not really tried to protect themselves against double spending attacks. Current digital currencies simply do allow blockchain manipulation to affect transactions too easily (cf. Fig. 10 page 29).

The current monopoly rent situation for bitcoin (if there is one) is more accidental than deserved. It is rather due to the fact that competitors of bitcoin have not done enough in order to design reasonable crypto currencies (cf. Section 7.2). In fact it is possible to believe that they have been excessively naive and they have fallen into a specific sort of deadly trap. They have copied **those exact mechanisms in bitcoin which mandate programmed destruction of all (weaker) crypto currencies which implement them**. Moreover many alt-coins have accelerated this processus greatly by programming many consecutive very fast transitions to occur within months. Current alt-coin crypto currencies are also ideal candidates for “pump and dump” investment strategies in which some form of decline, possibly a “certain death” [44] is bound to happen at exact predicted moments in time.

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